

ARGENTINA

**PROGRAM TO SUPPORT THE MODERNIZATION OF PRODUCTION
IN THE PROVINCE OF RÍO NEGRO**

(AR-0279)

LOAN PROPOSAL

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Annex II-1 Logical framework

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BASIC SOCIOECONOMIC DATA

For basic socioeconomic data, including public debt information, please refer to the following address:

English:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

Spanish:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

ACRONYMS AND ABBREVIATIONS

AOP	annual operating plan
BCRA	Banco Central de la República Argentina [Central Bank of Argentina]
BPA	beneficiary provincial agency
CODEMA	Consejo de Ecología y Medio Ambiente [Ecology and Environment Council]
CREAR	Agencia de Desarrollo Económico Rionegrino [Río Negro Agency for Economic Development]
ECLAC	Economic Commission for Latin America and the Caribbean
EIA	Environmental impact assessment
GAF	Gerencia de Administración y Finanzas [Administration and Finance Office]
IFI	intermediary financial institution
PCU	program coordination unit
PGI	protected geographical indication
PRL2	Provincial reform program, stage 2
SMES	small and medium-sized enterprises
UNDP	United Nations Development Programme
UPCEFE	Unidad Provincial de Coordinación Nacional de Ejecución del Financiamiento Externo [Provincial External Financing Coordination and Execution Unit]
USMEA	Unidad de Seguimiento, Monitoreo, Evaluación y Aprendizaje [follow-up, monitoring, evaluation and learning unit]



ARGENTINA

IDB LOANS

APPROVED AS OF MARCH 31, 2003

	US\$Thousand	Percent
TOTAL APPROVED	18,678,201	
DISBURSED	14,786,422	79.2%
UNDISBURSED BALANCE	3,891,779	20.8%
CANCELLATIONS	1,931,221	10.3%
PRINCIPAL COLLECTED	6,086,062	32.6%
APPROVED BY FUND		
ORDINARY CAPITAL	17,984,304	96.3%
FUND FOR SPECIAL OPERATIONS	644,906	3.5%
OTHER FUNDS	48,992	0.3%
OUTSTANDING DEBT BALANCE	8,700,360	
ORDINARY CAPITAL	8,553,099	98.3%
FUND FOR SPECIAL OPERATIONS	145,883	1.7%
OTHER FUNDS	1,378	0.0%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	842,551	4.5%
INDUSTRY, TOURISM, SCIENCE TECHNOLOGY	827,553	4.4%
ENERGY	1,841,957	9.9%
TRANSPORTATION AND COMMUNICATIONS	986,190	5.3%
EDUCATION	1,251,350	6.7%
HEALTH AND SANITATION	1,423,282	7.6%
ENVIRONMENT	31,125	0.2%
URBAN DEVELOPMENT	1,009,025	5.4%
SOCIAL INVESTMENT AND MICROENTERPRISE	2,688,223	14.4%
REFORM PUBLIC SECTOR MODERNIZATION	7,468,936	40.0%
EXPORT FINANCING	219,865	1.2%
PREINVESTMENT AND OTHER	88,143	0.5%

* Net of cancellations with monetary adjustments and export financing loan collections.



Inter-American Development Bank

Regional Operations Support Office

Operational Information Unit

Argentina

Tentative Lending Program

2003

Project Number	Project Name	IDB US\$ Millions	Status
AR0295	Social Protection and Reduction of the Impact of the Crisis	1,500.0	APPROVED
AR0292	Salta Province: Support to Productive Development Program	32.0	
AR0279	Rio Negro Province Productive Modernization.	60.0	
AR0296	Social Protection and Reduction of the Impact of the Crisis II	1,000.0	
Total - A : 4 Projects		2,592.0	
TOTAL 2003 : 4 Projects		2,592.0	

2004

Project Number	Project Name	IDB US\$ Millions	Status
AR0232	Strategy Design at the National and Provincial Levels	20.0	
AR0294	Support to San Luis Province	50.0	
AR0267	Tourism Development	25.0	
AR0241	Agro Competitiveness (PROCOM)	75.0	
AR0290	Financial Sector Program II	500.0	
Total - A : 5 Projects		670.0	
AR0264	AFIP Strengthening II Stage	95.0	
AR0285	Buenos Aires City Subway Phase I	150.0	
AR0247	Public Safety: Violence Prevention	100.0	
AR0274	National Housing Program	100.0	
Total - B : 4 Projects		445.0	
TOTAL - 2004 : 9 Projects		1,115.0	
Total Private Sector 2003 - 2004		0.0	
Total Regular Program 2003 - 2004		3,707.0	

*** Private Sector Project**



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ARGENTINA

STATUS OF LOANS IN EXECUTION AS OF MARCH 31, 2003

(Amounts in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED *	AMOUNT DISBURSED	% DISBURSED
<u>REGULAR PROGRAM</u>				
Before 1997	10	1,778,801	1,496,342	84.12%
1997 - 1998	7	1,021,500	436,545	42.74%
1999 - 2000	8	757,500	104,946	13.85%
2001 - 2002	5	1,645,000	657,683	39.98%
2003	7	2,425,000	1,058,872	43.66%
TOTAL	37	\$7,627,801	\$3,754,388	49.22%

PROGRAM TO SUPPORT THE MODERNIZATION OF PRODUCTION IN THE PROVINCE OF RÍO NEGRO

(AR-0279)

EXECUTIVE SUMMARY

Borrower:	Province of Río Negro		
Guarantor:	The Argentine Republic		
Executing agency:	Unidad Provincial de Coordinación y Ejecución del Financiamiento Externo (UPCEFE) [Provincial External Financing Coordination and Execution Unit]		
Amount and source:	IDB (OC-Dollar window): ¹	US\$40,404,000	
	IDB (OC-Trust fund/LIBOR): ¹	US\$11,496,000	
	Local:	<u>US\$34,600,000</u>	
	Total:	US\$86,500,000	
Financial terms and conditions:		Single Currency Facility	Dollar window
	Amortization period:	20 years	20 years
	Grace period:	5 years	5 years (on four fixed dates a year)
	Disbursement period (term not less than 3 years):	5 years	5 years
	Commitment period:	--	4 years
	Interest rate:	LIBOR	Variable
	Inspection and supervision:	1%	1%
	Credit fee:	0.75%	0.75%
	Prepayment costs:	Under study by the Bank	
	Currency:	dollars of the United States	

¹ As a condition precedent to the first disbursement, the borrower must indicate whether or nit it is maintaining these financial products. If it wishes to change them, it will have the following options: (a) change the interest rate selected for the loan under the Single Currency Facility to the currency pool; and/or (b) change the exchange rate selected for the loan to the dollar window or change the dollar window to the Single Currency Facility or currency pool.

Objectives: The objective of the program is to help SMEs in the province to improve their position on international markets, in a strengthened public-private institutional context.

Description: The program consists of three subprograms that seek to improve the services provided by government and remove market restrictions that affect the province's productive and economic performance. A subprogram is included on follow-up, monitoring, evaluation and learning. The subprograms are:

1. Modernization of support services for the productive sector (US\$4,620,000)

The purpose is to have a provincial public apparatus to support the productive sector that operates efficiently in carrying out its primary responsibilities of regulation, supervision and the provision of information. The subprogram is organized into two components: (i) strengthening in management, regulation and supervision; and (ii) strengthening in programming and evaluation.

2. Promotion of exports and investments in the province of Río Negro (US\$3,750,000)

The purpose is to support the province in implementing a public-private economic development strategy, designed to promote exports and tourism and to attract private investment. The subprogram is organized into three components: (i) development of clusters; (ii) promotion of exports and investments; and (iii) the institutionalization of Pro-Río Negro Patagonia.

3. Support for modernization of the production of SMEs (US\$69,820,000)

The purpose is to offer support for improvements in the productivity of the province's SMEs and in the quality of the goods and services they produce. The subprogram is organized into two components: (i) SME support fund; and (ii) nonfinancial services.

4. Follow-up, monitoring, evaluation and learning (US\$1,010,000)

The purpose is to provide continuous, up-to-date information on progress in the program, as a tool for decision-making by the project coordination unit, the assistant coordinators of each subprogram and the private sector beneficiaries. The information compiled by the system during the program will be used for the ex post evaluation.

The Bank's country and sector strategy:

The Bank's action in Argentina focuses on three strategic areas: (i) deepening and consolidating modernization of the State; (ii) boosting national productivity and competitiveness; and (iii) reducing poverty and improving the quality of life. The proposed operation addresses points (i) and (ii). It will help to modernize the provincial government through activities to reorganize the departments and agencies linked to the productive sectors (paragraphs 1.14-1.18) and promote better ties between the private and public sectors through the implementation of strategies for the main productive clusters. These activities will help to boost competitiveness by creating a better institutional environment for private sector development. Also, the proposed operation will help to improve the province's productivity and competitiveness by financing the productive projects of export-oriented SMEs that earn foreign currency.

The design of this operation conforms to the Bank's competitiveness strategy (document GN-2243), is consistent with the Bank's normal practices in the field of financial intermediation, and incorporates the lessons learned from operations financed by the Bank and other international lending agencies (paragraphs 1.33-1.38). Also, in accordance with the Bank's action strategy for Argentina, this operation will be compatible with the agreement on management of provincial public finances reached between the federal and provincial governments last March (paragraphs 1.11-1.13).

Coordination with other development agencies:

The provincial government of Río Negro has experience in executing operations with multilateral agencies, having implemented the following operations, among others: provincial reform program, stage 2 (IBRD 4218) and the provincial government reform program (IBRD 3836) both with the World Bank; the program for institutional reform of the social sectors of the province of Río Negro with the European Community; the program to support reconversion of the service model used in public hospitals in the province of Río Negro with the UNDP; and the barrio improvement program (PROMEBA) with the IDB (paragraph 1.32).

Environmental and social review:

The proposed program will have positive environmental impacts through the subprogram to modernize the public administration, which offers opportunities to act on the weaknesses of the public institutions that regulate the private sector and are involved in environmental and natural resource management in the province. CODEMA is being modernized to make the province's regulatory and institutional framework for environmental management more effective, and the council will be strengthened as part of the program.

No significant environmental or social risks are anticipated relating to the subprogram to support modernization of the production of SMEs. To ensure the environmental sustainability of the business plans to be financed, the Credit Regulations contain selection procedures for environmental quality and social equity as part of the eligibility, selection and approval process of projects. Business plans with potential negative environmental effects must include mitigation measures to accede to the financing.

Benefits:

The benefits will be seen in the increase in the competitiveness and production of the province's SMEs, the improvement in their profiles and export volumes and their positioning on foreign markets. The new investments will create new sources of jobs and contribute to tax revenues to strengthen public finances, thanks to growth in the provincial tax base.

New private investments will be attracted to the province from elsewhere in the country and abroad, since the stability and modernization of provincial regulatory activity will create a favorable environment for capturing long-term investments.

Other benefits include diversification of production and foreign markets and technological modernization and assimilation of new productive techniques by the SMEs that are program beneficiaries.

Risks:

The main risk is that the private sector may not be willing to invest in activities to modernize production. This depends on whether there is a suitable sociopolitical climate for investment in the country and on whether international prices are acceptable. When the program was being prepared, a critical mass of small and medium-sized entrepreneurs was identified, who have investment projects and track records and are willing to provide guarantees and cofinancing to complement loans denominated in dollars, which will ensure that the investment program achieves its goals.

With regard to access to credit services, there is a risk that the conditions necessary for the internal operation of the fund to support SMEs will not develop, i.e.: (i) a reasonable number of eligible IFIs will not be found promptly, given the delicate situation that still prevails in the financial system; (ii) the solvency of participating IFIs could deteriorate with an eventual impact on program funds; and (iii) not enough SMEs will be eligible for bank loans, based on the rules of the BCRA. This last aspect could be significant if the system does not return to normal or suffers a new setback. However, there is a clear trend toward a rapid improvement in the situation as the process advances, and it is therefore felt that it might only have a significant impact during the first year of the subprogram.

Special contractual clauses:

1. Conditions precedent to the first disbursement

(i) Establishment of the PCU, with its executive coordinator and the assistant coordinators for each technical area appointed, based on terms of reference agreed upon with the Bank (paragraph 3.4); (ii) establishment and operation of the follow-up, monitoring, evaluation and learning unit (paragraph 3.4); (iii) entry into force of the regulations under the decrees to reorganize staffing in beneficiary provincial agencies (paragraph 3.10); and (iv) opening of exclusive bank accounts for the loan proceeds denominated in LIBOR and the counterpart resources (paragraph 3.47).

2. Conditions precedent to the first disbursements of the component for the SME support fund

Prior to the first disbursement for the SME support fund, the executing agency will be required to: (i) approve operating rules for the component satisfactory to the Bank and place them in effect; (ii) establish the trust fund with the trustee selected according to eligibility criteria agreed upon with the Bank; and (iii) open a specific bank account to manage the component's funds and have an accounting system that allows for reporting and control, to the Bank's satisfaction, of the loan proceeds and the local counterpart for this component (paragraph 3.29).

3. Other contractual conditions

(i) Mid-term and ex post evaluations (paragraphs 3.43-3.44); (ii) 10 percent revolving fund for the SME support fund component (paragraph 3.46); (iii) recognition of expenditures and retroactive financing (paragraph 3.54); and (iv) disbursements based on compliance with fiscal goals (paragraph 4.25 and the logical framework).

Poverty-targeting and social sector classification:

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Nor does this operation qualify as a poverty-targeted investment (PTI).

Procurement:

Procurement of goods and services will be subject to the Bank's standard bidding procedures. When the estimated cost of goods and services is US\$350,000 equivalent and over, they will be subject to international competitive bidding. The contracts are listed in the procurement plan in Annex III-1.

Consulting services will be contracted in accordance with the Bank's standard procedures and the procedures established in document

GN-1679-3. All consulting contracts for US\$200,000 equivalent and over will be subject to an international open call for proposals. For this program, in cases of selection based on quality and cost, the relative weight of price as an evaluation criterion will not exceed 30 percent and the technical or quality element may not be less than 70 percent.

The PCU will be responsible for signing all contracts for goods and services; however, the PCU may delegate preparation of the bid documents to the technical support institutions when their value is below US\$200,000.

**Exceptions to
Bank policy:**

As an exception to international competitive bidding, it is recommended that the Economic Commission for Latin America and the Caribbean (ECLAC) be contracted directly, through its office in Buenos Aires, to participate in the component to strengthen programming and evaluation, given its technical and institutional advantages in this field (paragraph 3.50).

I. FRAME OF REFERENCE

A. General aspects

- 1.1 The province of Río Negro, located in the central-southern part of the country, extends from the border with Chile in the Andes to the Atlantic Ocean in the east. In the northeast the province borders the province of Neuquén, to the north it borders the provinces of La Pampa and Buenos Aires, and to the south it borders the province of Chubut. It covers an area of 203,013 km² and has a population of over half a million (1.53 percent of all Argentines) who mainly live in urban areas (84 percent). The highest population densities are in the departments of General Roca and Bariloche, where about 71 percent of the population lives.

B. Economic context and the province's productive sectors

- 1.2 Argentina's macroeconomic behavior has been unsatisfactory since 1995. From 1997 to 1999, the economy was subject to the impact of external shocks that affected its performance and since the start of 1999 it has fallen into a period of economic stagnation. As a result of a long period of weak economic activity, an overvalued currency, persistent fiscal imbalances and a growing debt, at the end of 2001 a sharp and rapid decline in inflows of capital and a massive withdrawal of deposits from the banking system led to a freeze on demand deposits (*el corralito*) and medium- and long-term deposits (*el corralón*). This was followed by the suspension of payments to private creditors, devaluation of the peso and the asymmetrical pesification of assets and liabilities denominated in dollars, which compromised the solvency and liquidity of the financial system and the financial intermediation process. These measures paralyzed the system of payments and financing for the productive sector and demand for credit, mainly by small and medium-sized enterprises (SMEs), was no longer met. The situation had begun to improve by the end of 2002, and there has been a slow recovery, particularly in exports.
- 1.3 This macroeconomic behavior has affected the province's productive sectors, whose main economic activities are tourism and agri-food. They make an important contribution to generating foreign currency. Fruit accounts for exports of US\$280 million a year, equivalent to 39 percent of the country's fruit exports and 53 percent of the province's. Tourism brings in income of about US\$160 million a year, after the long period it took for the industry to come of age as a national (85 percent) and international (15 percent) tourist destination, particularly San Carlos de Bariloche.
- 1.4 Apart from earning foreign currency, these sectors are also important sources of jobs. Fruit production (pears and apples) creates more than 56,000 direct and indirect jobs and accounts for about 16 percent of the gross provincial product (GPP); tourism creates about 13,000 jobs for 5 percent of GPP; livestock production (wool and meat), vegetables, fish, winemaking and mining (excluding

fossil fuels), each account for about 2 percent of GPP. If investments were made in reconversion and/or modernization (e.g. frost protection, changes in varieties, packing systems, hotel refurbishment), these sectors could create more jobs. It is estimated that 10 hectares of fruit grown under irrigation can generate 20 jobs. The middle valley and lower valley regions have 60,000 ha of land apt for irrigation that has been underused in recent years.

- 1.5 These sectors are mainly composed of SMEs that congregate in well-defined geographic areas with features that resemble business clusters observed in other regions. In the upper valley, small farms account for 50 percent of all farms, 30 percent are medium-sized operations, partially linked to exporters, and 20 percent are vertically-integrated operations, with modern post-harvest technology. A high concentration of private companies associated with fruit producers (e.g. private banks, processing companies and marketers) and services and/or public investments (e.g. universities, fruit crop research centers, irrigation systems) complement the primary productive activity.
- 1.6 The hotel industry in San Carlos de Bariloche, for its part, is mainly composed of small hotels or hostels (over 90 percent) aimed at a market that has traditionally demanded lower quality services (mainly students), who report an average stay of five days and spending per tourist of US\$30 a day. With the capacity to accommodate more than 14,000 visitors, Bariloche is the largest tourist destination in the Argentine Andes and the main port of entry into Patagonia. Apart from the hotel industry, the region is developing a food products (delicatessen) industry that is closely linked to tourism and a technology industry, the latter linked to the Instituto Balseiro in Bariloche.
- 1.7 As a result of the current exchange regime, there has been an improvement in the competitiveness of the province's exports. In the 2001-2002 harvest, there was an increase in the volume and real value of fruit exports equivalent to 13 percent and 100 percent, respectively. The hotel industry in Bariloche has seen an increase in the occupancy rate, which rose from 52 percent in the first half of 2001 to 72 percent in the first half of 2002, with an increase of 28 percent in the number of visitors over the same period, due to a rise in both international and domestic tourism which, under the old exchange regime, would have opted for tourist destinations outside Argentina.
- 1.8 Despite the increases in foreign currency earnings, major structural obstacles still affect the competitiveness of the province's productive sectors. As underlined below, some of those obstacles are linked to the provision of services by government, given the major constraints on public spending and borrowing and on the availability of financial resources to finance medium- and long-term investments. In addition, if they are to make sustainable use of the region's comparative advantages, the productive sectors will need to define unified

marketing and promotion strategies, based on careful analyses, with extensive private participation.

Table I-1. Public sector fiscal indicators. Río Negro and consolidated provincial (%)

	1998		1999		2000		2001		2002	
	Río Negro	P	Río Negro	P	Río Negro	P	Río Negro	P	Río Negro	P
Financial performance/Current income (1)	(15.8)	(6.1)	(17.0)	(13.3)	(13.3)	(10.4)	(17.1)	(21.8)	(4.9)	(5.5)
Economic performance/Current income (2)	(0.9)	6.9	(8.2)	(2.1)	(6.5)	(1.4)	(9.9)	(13.0)	(2.7)	(1.4)
Primary income/Current income (3)	(4.5)	10.6	(4.5)	2.5	1.2	(4.5)	1.4	(4.7)	8.1	(2.5)
Personnel costs/Current income	59.7	52.6	58.6	58.1	55.4	58.3	56.2	64.0	54.8	63.17

Source: Federal Ministry of Economic Affairs. Provincial Ministry of Economic Affairs of Río Negro.

Río Negro = Province of Río Negro

P = Consolidated provincial

1. Total income minus total spending

2. Current income minus current spending

3. Current income minus current spending (except interest payments)

D. Río Negro in the context of federal-provincial fiscal relations

- 1.11 In January 2002, given the impossibility of honoring its financial obligations, the Argentine government declared a partial moratorium and abandoned the dollar peg that had been in effect since 1991, adopting a floating exchange rate, which made it necessary to adjust the system of transfer payments from the federal to the provincial governments and their amount and to redefine the period for achieving fiscal balance, which had been 2005 until then. The result was a fiscal commitment between the federal and provincial governments signed on 27 February 2002 (Table I-2).

Table I-2
Agreement on financial relations between the federal
and provincial governments and bases for federal tax sharing

Main points in the agreement:

- ✓ Eliminate the minimum for tax sharing with the provinces (Arg\$1,364 million), which implies that transfers will be geared to national revenues;
- ✓ Transfer 30 percent of the tax on debits and credits to the provinces;
- ✓ Convert provincial domestic liabilities denominated in dollars to pesos at the rate of Arg\$1.40 pesos/US\$1 and index them. Authorize their refinancing by the federal government over 16 years, which will retain up to 15 percent of the total funds it would transfer to the provinces to make payments on those debts;
- ✓ Reduce the provincial debt in 2002 by 60 percent compared to 2001 and achieve a balance in 2003; and
- ✓ Require express authorization from the federal Ministry of Economic Affairs and/or the Central Bank for the provinces to obtain any new borrowing.

- 1.12 On the basis of this commitment, on 10 May 2002, the federal government and the Río Negro provincial government signed a letter of intent, affirming that the province would reduce its fiscal deficit and refinance its public debt by participating in the Orderly Financing Program. The province undertook to achieve the target of a 50 percent reduction in the current deficit posted in 2001 (in the order of 7.6 percent of current income). On 8 November 2002, through Decree 2263, the federal government confirmed the bases established in the program, which will make it possible to reduce the weight of debt service in the short term and the size of the provincial debt in the medium term.
- 1.13 On 7 March 2003, the federal and provincial governments signed an agreement implementing the Orderly Financing Program. The agreement establishes that the federal government will finance the provincial debt up to Arg\$149,970,000 in 2003 under conditions that are more favorable than market conditions, retaining as a guarantee, up to 15 percent of federal tax sharing funds. **The main commitments assumed by the province were: (i) to reduce the floating debt of Arg\$104,330,000 in 2002 to Arg\$32,010,000 by the end of 2003; (ii) to obtain the fiscal results in primary and financial terms indicated in paragraph 4.23; and (iii) not to contract new debt without authorization from the federal Ministry of Economic Affairs and not to issue quasimoney.**

- 1.16 In response to the above, in 2002 when the program was being prepared, the province began a process of institutional reorganization in the Ministry of Economic Affairs and the Department of Tourism and reviewed their organizational and human resource structures. The review and process of institutional reform clarified the institutional mission and responsibilities of the Departments of Production, the Fruit Industry and Tourism, CODEMA and CREAM and their line units. This reorganization also established the spheres of responsibility of the different areas pertaining to the existing regulatory frameworks, and led to the creation of the Economic Programming and Policy Under-Secretariat, which unified responsibilities for programming, statistical information and economic studies, that had been previously scattered among provincial government agencies.
- 1.17 With regard to CODEMA, a detailed analysis was performed of its institutional situation, missions and functions and its current operating capacity. The analysis extended to the missions, functions and capacity of the other provincial agencies with responsibilities for the management and use of natural resources. Taking the analysis as the base, a process of institutional reform was undertaken, with the following preliminary results: (i) CODEMA's rank in the hierarchy was raised; it had formerly reported to the Department of Production but now reports directly to the Ministry of Economic Affairs, which gives it greater autonomy; (ii) CODEMA, was restructured to reflect its new functions and responsibilities; and (iii) a proposal was prepared for CODEMA's institutional and operational strengthening and for the coordination of an integrated provincial environmental management system.
- 1.18 In short, the reform process launched in this period has redefined the professional roles and profiles of staff in the different areas, starting with an analysis to reorganize responsibilities and determine the scope of the different mechanisms for interagency coordination, through: (i) the establishment of a production office as a

body to coordinate production policy; (ii) implementation of an extensive supervisory system as the primary responsibility of the Division of Supervision of the Department of Production; (iii) strengthening of interagency relations in environmental management, by having sector bodies responsible for natural resources on the technical and policy levels sit on CODEMA; and (iv) the process of environmental evaluation, establishing the responsibilities of the different sector organizations and CODEMA. To complete this progress, a training strategy for personnel will be required and the new processes for regulation and supervision of the productive sectors need to be put into practice.

F. The impact of the crisis on the provincial financial sector

- 1.19 The recent economic crisis (paragraph 1.2) meant the disappearance of nearly 75 percent of the lending capacity that Argentina's 86 banks had at the end of 2001. The balance of the bank loan portfolio in the final quarter of 2001, equivalent to about US\$80 billion, had shrunk by February 2003 to just US\$11.2 billion for lending to the nonfinancial private sector, plus US\$8,460 million in loans to the government and US\$640 million in loans to financial institutions.
- 1.20 The banking system is recovering more rapidly than expected in terms of liquidity, current mismatches, and equity. It survived the run on banks, having recovered deposits on a sustained basis since August 2002. The system as a whole does not seem to have any significant mismatching between foreign currency assets and liabilities, and neither does there seem to be any major imbalances between assets and liabilities with floating rates. The equity situation of the system on the books appears to be positive, once the pending adjustments are made (i.e. assessment of securities, proper provisioning for private-sector lending and compensation under legal action (*amparo*) taken against banking restrictions and "asymmetrical pesification" (forced conversion of dollar loans to pesos at a different rate than for the conversion of dollar deposits). This substantial improvement notwithstanding, the banking system can necessarily be expected to continue to be smaller, with weak growth and problems in returns.
- 1.21 In this context, as in the rest of the regional economies, in Río Negro there is a shortage of financing for SMEs from the formal banking system or the capital market. Financing requirements thus far have been partly covered by one or more of the following sources of funds: (a) own resources (self-financing) built up in the past; (b) commercial credits from suppliers; (c) nonbank financial entities (mutuals, finance companies and credit unions); and (d) the informal credit market (moneylenders, speculators). However, all these alternative sources of financing are unable to keep pace with the total demand for financing. Also, they charge high interest rates that are incompatible with the returns obtained by the companies.
- 1.22 With regard to the financial sector in Río Negro, as of February 2003, the following banks had lendable funds: Banco de la Nación Argentina, Banco Patagonia S.A.,

Banco Provincia de Neuquén S.A., Banca Nazionale del Lavoro S.A., BBV-Banco Francés, Banco BANSUD, Banco de Río Negro S.A., Banco Galicia, BankBoston, HSBC Bank Argentina, Banco de la Pampa, Banco Sudameris Argentina S.A., Banco Hipotecario S.A., and Banco Credicoop Coop. Ltda. No nonbank financial agencies operate in the province.

- 1.23 These banks have 63 branches in Río Negro, which captured total deposits as of February 2003 of US\$909 million and have a total balance in their loan portfolio of US\$870 million. The banks with the widest geographic coverage, closest physical proximity to the borrowers and largest volume of credit for SMEs are Banco de la Nación, with branches in 15 of the province's cities and Banco Patagonia S.A., with 14 branches in the province and one in Buenos Aires.
- 1.24 The Banco de la Nación is the main offerer of funds in the region (its portfolio accounts for 38.5 percent of the bank portfolio in the province) and it serves rural producers in particular. The Banco Patagonia S.A. has 18.5 percent of the market, and prefers to carry out basic banking transactions, providing a variety of banking services and urban loans. BANSUD is third in importance in the province's financial market, with seven branches and 8.75 percent of the credit market, followed by Banco Francés with three branches and 7.45 percent of the market and Banco Río with four branches and 4.25 percent of the market. The figures suggest that these banks account for almost 75 percent of the Río Negro market.
- 1.25 Studies indicate that demand for financing by SMEs is primarily for: (i) working capital for productive projects presented individually or by associations of SMEs, including between producers and marketers; (ii) export prefinancing; (iii) programs for reconversion (e.g. change in varieties); (iv) capital goods for fruit and vegetable growers and wool producers (machinery, equipment and installations, irrigation systems and infrastructure, frost and hail protection); and (v) hotel and restaurant infrastructure, preferably for modernization and reclassification of existing establishments with potential for international tourism, and for different private undertakings linked to the tourism sector.
- 1.26 With regard to the length of the loans, on average, export prefinancing is needed for 180 days and export financing for one year. For working capital, demand is for one year and, by way of exception, for two years. Five years are required for the purchase of equipment, machinery and capital goods; for productive reconversion (changes in varieties), seven years; for hotel refurbishment and/or equipment, from five to seven years; and for infrastructure for packing and freezing plants and aqueducts for livestock zones, 10 years.

G. The provincial strategy

- 1.27 In light of the opportunities and challenges for the province's productive sectors, the provincial authorities and the private sector have made it a priority to develop a

strategy to revive economic growth. Both sectors recognize the need to take advantage of the current economic situation to implement a strategy based on improving the competitiveness of the sectors that are best positioned on the international market. *The strategy seeks to improve the efficiency of the public administration and create a public-private institutional context that can meet the challenge presented by international markets and develop tools for intervention that will allow for longer-term private investment.* These principles have been incorporated into the design of the proposed operation, whose justification and operational design were subject to consultations with beneficiary sectors.

- 1.28 In this respect, it should be noted that the private sector and the provincial government have undertaken joint activities in recent years, particularly in the fruit growing, tourism and technology sectors. An exercise in extensive consultations with apple growers ended in December 2002, and a similar exercise is planned with pear growers, which led to the production agendas. Since 2000, the Department of Tourism, EMPROTUR and the hotel association have been implementing a preliminary strategy for tourism development in Bariloche. Moreover, the provincial government has supported the establishment of the Patagonian High Technology Complex (COPAT), which is intended to attract a critical mass of provincial high technology companies. The proposed program forms part of this process of joint activities and reflects the lessons learned in the design of the proposed activities to support strengthening of the dialogue between the public and private sectors and modernization of the State, which together will lead to a development strategy that is more closely coordinated with different stakeholders in civil society, by the time the program ends.

H. Strategy and justification of Bank participation

- 1.29 The Bank's action in Argentina focuses on three strategic areas: (i) deepening and consolidating modernization of the State on the federal, provincial and municipal levels; (ii) boosting national productivity and competitiveness; and (iii) reducing poverty and improving the quality of life. The proposed operation addresses points (i) and (ii). It will help to modernize the provincial government through activities to reorganize the departments and agencies linked to the productive sectors (paragraphs 1.14-1.18) and promote closer ties between the private and public sectors through the implementation of strategies for the main productive clusters. These activities will help to boost competitiveness by creating a better institutional environment for private sector development. Also, the proposed operation will help to improve the province's productivity and competitiveness by financing the productive projects of SMEs that make exports and earn foreign currency.
- 1.30 The design of this operation conforms to the Bank's competitiveness strategy (GN-2243), is consistent with the Bank's normal practices in the field of financial intermediation, and incorporates the lessons learned from operations financed by the Bank and other international lending agencies (paragraphs 1.39-1.41). Also, in

accordance with the Bank's action strategy for Argentina, this operation is consistent with the agreement on orderly provincial public finances reached by the federal and provincial governments last March (paragraphs 1.11-1.13).

Table I-3

The Bank's competitiveness strategy is intended to help improve the economic and institutional environmental for private sector development and increased productivity.

The obstacles to improving the region's competitiveness mentioned in the strategy include: (i) a shortage of financial resources and difficulties in access to credit which stands in the way of tapping profitable productive opportunities; (ii) shortcomings in public institutions, including the lack of coordination between the government and the private sector. However, the levels of competitiveness are not the same everywhere in a country or in the different entrepreneurial segments.

In this context, the Bank's action is intended to promote policies and institutions for the effective mobilization of financial and capital resources and effective institutions able to support private productive activities, including simplification of the agencies in charge of the registration, control and supervision of private activity, and facilitation of cooperation between the public and private sectors. The Bank's actions in the private sector include support for clusters and the strengthening of production chains through associative efforts between companies of different sizes or in different sectors and between them and the academic world and the public sector.

- 1.31 The proposed operation is consistent with the Bank's strategy for supporting the development of the lower levels of government (document GN-2125), which gives priority to Bank support in improving the institutional capacity of governments on that level. In its direct work with the provinces, the Bank has approved operations in the provinces of Buenos Aires, Córdoba and the City of Buenos Aires and is preparing projects for the provinces of Salta and San Luis. These provinces have been selected based on criteria that promote the Bank's three strategic areas in Argentina. The strategy also includes Bank loans to the federal government to promote economic activity and improve the quality of life in the provinces, for example the provincial agricultural services program, the barrio improvement program and the municipal social investment program, which are operations that include onlending to the provinces. Stage II of the technology modernization loan and the microenterprise and small business loan are intended to support the private sector.
- 1.32 *Coordination with other development agencies.* The provincial government of Río Negro has experience in executing operations with multilateral agencies, having implemented the following operations, among others: provincial reform program, stage 2 (IBRD 4218) for US\$50 million and the provincial government reform program (IBRD 3836) for US\$40 million, both with the World Bank; the program for institutional reform of the social sectors of the province of Río Negro for €3.8 million with the European Community; and the program to support reconversion of the service model used in public hospitals in the province of Río Negro with the UNDP for US\$18 million (UNDP Arg 6/00/034). The lessons learned during those operations have been taken into account in the design of the

proposed operation and the same unit that coordinated their execution will be used this time as well (paragraph 4.17).

I. Lessons learned

- 1.33 When this operation was being prepared, the lessons learned from operations in Argentina and other countries of the region were taken into account, some of which have been presented in the Bank's competitiveness strategy and in the recent evaluation of the strategy for small and medium-sized enterprise published by OVE (December 2002).
- 1.34 *Operations on the provincial level should consider the need to strengthen the fiscal situation and public sector capacity.* In the current context, it is important to carry out operations that help to strengthen the fiscal situation of the provinces through an increase in economic activity and sustainable management of spending and the public debt. In this regard, an improvement in spending efficiency in the delivery of public services to support the productive sectors is important, which is the objective of the first subprogram.
- 1.35 *Support for the development of SMEs should be accompanied by nonfinancial services which help to narrow the information gap between financial entities and SMEs, contributing to the viability of the proposed businesses.* One of the main challenges in supporting SMEs is to develop instruments that support the technical capacity of the intermediary financial institutions (IFIs) to serve this market segment and improve access by entrepreneurs to medium- and long-term financing. Recent experience in Uruguay shows that there is considerable value added in providing nonfinancial services to boost the capacity of entrepreneurs in preparing business plans, which help the financial agents and entrepreneurs to better understand the nature of the businesses to be financed (i.e., profitability and commercial and financial risk), thereby increasing the probabilities that the business will succeed. A World Bank evaluation of SME operations in Argentina stresses that the lack of information on the nature of the business has acted as a major restriction on access to credit. The nonfinancial services component will help prepare the business plans provided for in subprogram three.
- 1.36 *The impact of national credit programs tends to focus on the large urban centers, making a very limited contribution to access to credit outside those centers.* In Argentina, experience with national credit programs for microenterprise and small business indicates that the main beneficiaries tend to be found in traditional sectors that operate around the main cities, particularly greater Buenos Aires, with very little spillover into the provincial economies, which has been aggravated by the lack of liquidity in the system. Studies conducted by ECLAC in Buenos Aires indicate that the country's capital is the only area with a positive financial balance in the private sector, i.e. the value of bank loans received by the private sector in Buenos Aires is higher than the value of deposits made by that sector. The programs of the

financial sector in Argentina, particularly credit programs, should include elements to address this problem. Because of its provincial nature, the trust fund component in the proposed operation is consistent with this approach.

- 1.37 *To achieve a sustainable improvement in competitiveness and in institutional changes, a comprehensive approach is required that includes private sector participation.* Private sector participation in defining the lines of action for policy and investment should be strengthened. The program has included these lessons, seeking to tap synergies in public-private institutional support and improving access to credit.
- 1.38 *To improve the execution of programs to support the productive sector, it is necessary to incorporate follow-up and evaluation capacity into project design.* One of the main problems in evaluating the impact of programs targeted to SMEs has been the lack of data and relevant information. The proposed program includes a subprogram for evaluation and follow-up which will provide continuous data and information, help to improve program administration during execution, and facilitate an ex post evaluation of its impact.

J. Elements for a program to modernize production

- 1.39 Implementing a program to modernize production in the province of Río Negro starts from the situation in the country today. There is a window of opportunity for exports which, in the short term, is the only sector capable of growing sustainably in a context of stagnation in domestic demand.¹ The recent recovery in the province's exports should be taken advantage of to expand and solidify access to international markets through improvements in competitiveness and promotion and marketing strategies. In the medium term, the productive sectors will face serious problems of competitiveness as a result of the economic climate, which has not been favorable for making the investments needed to modernize businesses over the last five years. *To help reverse this trend, it will be necessary to: (i) modernize public services and the way in which the government delivers them; (ii) increase private sector participation in the development and implementation of productive, technological and commercial strategies; and (iii) facilitate financial resources under suitable terms and conditions for investing in the modernization of the export sectors.*
- 1.40 In the current economic environment, consideration must be given to the kinds of government actions that will make for greater competitiveness in the productive sectors. Those actions include the provision of support services for entrepreneurs, control of health quality, hotel classification, strategic publicity for products and a

¹ There has been considerable growth in import-substitution activities and in textiles, but it will be difficult to maintain as the impact of the devaluation ceases to have an effect.

search for niches on the international market. A careful review and adjustment of actions by public sector to support the private sector will open up the possibility of achieving greater effectiveness and efficiency in public spending and an institutional framework that will help the competitiveness of the province.

- 1.41 The private sector must play a leadership role in the development and implementation of strategies to promote exports and/or attract investments, seeking to develop a medium- and long-term vision to sustain its competitive position on international markets. The interaction between the public and private sectors is an important element for modernization, but to achieve it, reactivation of the financial market will be necessary, since its paralysis has directly affected the feasibility of investing in the province's productive sectors. It will be necessary to ensure that the financial system responds to demand by the province's entrepreneurs.

II. THE PROGRAM

A. Objective

- 2.1 The objective of the program is to help SMEs in the province to improve their competitive position on international markets, in a strengthened public-private institutional context.

B. Description and structure

- 2.2 The program consists of three subprograms that seek to improve the services provided by the government and remove market restrictions that affect the province's productive and economic performance. A subprogram is included on follow-up, monitoring, evaluation and learning.

1. Modernization of support services for the productive sector (US\$4,620,000)

- 2.3 The purpose is to have a provincial public apparatus to support the productive sector operating efficiently in carrying out its primary responsibilities of regulation, supervision and the provision of information. That efficiency will be achieved through: (i) consolidated institutional reorganization; (ii) a modern provincial regulatory framework; (iii) better information for entrepreneurs about rules and regulations; (iv) better and faster service for entrepreneurs relating to certain specific formalities (e.g. registers, licenses, processing of waybills, etc.); (v) greater supervisory coverage and environmental management for productive processes; and (vi) better quality and coverage of information on the provincial economy. The subprogram will be implemented on the basis of the new institutional framework that has been legally approved (paragraph 1.16) and is organized into two components:

a. Strengthening of management, regulation and supervision (US\$3,740,000)

- 2.4 This component will finance activities to provide each of the provincial beneficiary agencies (PBAs) with the management capacity they need to carry out their priority functions, which are:
- a. **To strengthen the Department of Production** in its regulatory and supervisory functions through: (i) a review of the regulatory frameworks (agriculture, fisheries, livestock farming, forestry, wildlife and their related industries); (ii) organization of procedures for supervising the productive sectors and protecting natural resources and consumers; (iii) a master register of regulated businesses which will improve the traceability of Río Negro production; (iv) the

introduction of a system for control, supervision and monitoring of the fishing fleet in the Gulf of San Matías; and (v) zoning of the Andean native forest in Patagonia to permit its sustainable use.

- b. **To strengthen the Fruit Industry Department** in its regulatory and supervisory functions through: (i) a review of the regulatory framework for the fruit-growing sector and related industries; and (ii) the introduction of a specific module for a master register of regulated businesses.
- c. **To strengthen the Department of Tourism** in its regulatory, supervisory and managerial functions through: (i) application of a new system for the regulation and licensing of hotel services; (ii) regulation and control of the tourism supply; (iii) organization of the supervisory system for tourist services; and (iv) improvement in the comprehensive management of Cerro Catedral.
- d. **To strengthen the Ecology and Environment Council (CODEMA)** to provide it with autonomy in its sphere of responsibility as it relates to production and interagency management capacity linked to the sector areas involved in natural resource management. This will be achieved through: (i) the introduction of a new institutional design for CODEMA and the environmental management system, its administrative procedures and processes and regulation of the provincial environmental protection fund; (ii) the incorporation of environmental planning and management techniques; (iii) the modernization and regulation of the environmental impact assessment system and the strengthening of environmental evaluation and auditing; and (iv) a new model for managing protected natural areas, suited to provincial conditions, which will first be applied to the Río Azul-Lago Escondido and Meseta de Somuncura protected areas.

b. Strengthening in programming and evaluation (US\$880,000)

- 2.5 The government has established the Economic Policy and Programming Under-Secretariat, which brings together agencies that were previously scattered throughout the provincial administration. This consolidation will make it possible to strengthen programming and intelligence capacity for analyzing the provincial economic situation, evaluating production policies and the economic impact of public policies, and improving the statistical system for provincial economic information. The under-secretariat will also be responsible for executing the evaluation and learning module in the subprogram for follow-up, monitoring, evaluation and learning (paragraphs 2.25-2.27).
- 2.6 The province has asked to directly contract the Economic Commission for Latin America and the Caribbean (ECLAC), Buenos Aires office, for support in preparing eight specific studies to improve provincial economic statistics. This contract will help to strengthen the province's capacity to analyze its economy and

regional cycles. The studies will improve the calculation of the gross provincial product, perform a contextual analysis and establish a system for economic statistics on tourism.

- 2.7 The improvement in the operating capacity of each PBA will be achieved by modernizing its support infrastructure, through the procurement of equipment, consulting services and training for human resources in public management. It will also strengthen administrative processes for the efficient capture of own resources and for results-based budget management. Users will be given a better understanding of the services provided and complaint procedures.
- 2.8 This modernization of the public apparatus will bring a number of benefits, such as: a reduction in the operating load and in the direct (tariffs) and indirect (time, processing and delays) administrative costs to the private sector of its dealings with public agencies; better government supervisory coverage, spurring competition between companies; greater commercial transparency and consumer protection, particularly in the tourism sector; greater capacity to manage environmental quality in the province; and greater provincial capacity to analyze the provincial economy and regional cycles.

2. Promotion of exports and investments in the province of Río Negro (US\$3,750,000)

- 2.9 The purpose is to support the province in implementing a public-private economic development strategy, designed to promote exports and tourism, and to attract private investment. The subprogram is organized into three components.

a. Development of clusters (US\$1,870,000)

- 2.10 The component will support the province's public and private sectors in developing competitive strategies for the fruit production cluster in the upper valley and the middle valley and the tourism and technology clusters in the Andes zone (paragraphs 1.4 to 1.6). A strategic process of organizing and developing clusters in these regions will be used and actions to address the main challenges for boosting the competitiveness of the selected clusters will be identified jointly. As part of this process, the functions of the provincial economic development agency (CREAR) will be refocused to support the development of clusters.
- 2.11 The activities in this component will be carried out in five stages: (i) mobilization; (ii) analysis; (iii) development of the collaborative strategy; (iv) its production; and (v) implementation. Technical assistance will be provided for CREAR and the Department of Tourism, which will coordinate activities for developing the clusters. Technical workshops will be held with members of clusters and information materials will be published. Cluster development is based on the principle that leadership in implementation of the cooperative strategy and should be assumed by

the private sector. To that end, during the mobilization phase, private-sector representatives who will lead the process will be identified.

b. Promotion of exports and investments (US\$1,770,000)

- 2.12 This component will promote provincial exports of goods and services and the attraction of investments. It is expected that there will be deeper market penetration of Río Negro products on traditional export markets and expansion into nontraditional markets and an increase in outside investment in areas with competitive advantages.
- 2.13 This component will finance implementation of the regional promotion strategy, developed while the component to develop clusters is being carried out. The province will have a promotion strategy focused on priority clusters that will position its products and services on international markets. As part of this component, a trademark and logo “Patagonia Río Negro” will be developed as a protected geographical indication, including a manual of procedures for using it. A web page will be designed to promote the different exports and companies; preliminary promotional materials will be produced (brochures, videos, etc.); technical support will be provided to prepare entrepreneurs, public servants and members of the priority clusters to participate in trade promotion missions and attend trade fairs. The promotion strategy will include actions to promote investment opportunities in the province. Data on market studies and the business climate in the province will be updated (such as progress reports).

c. The institutionalization of Pro-Río Negro Patagonia (US\$130,000)

- 2.14 This component will support the institutionalization of a mixed public and private agency to promote exports and attract investments. The institutional arrangement that will govern the agency will be defined during the development of the cluster strategies. This will lend it greater legitimacy, since it will respond to a participative strategy based on private sector priorities. Activities in this component include formulation of the articles of association of Pro-Río Negro Patagonia, the design of its organizational and administrative structure, identification and definition of the profiles of the professionals who will support its operations, definition of its legal status, membership procedures, and plans for its long-term financing.

3. Support for modernization of the production of SMEs (US\$69,820,000)

- 2.15 The purpose is to offer support for improvements in the productivity of the province’s SMEs and in the quality of the goods and services they produce. The subprogram is organized into two components.

a. SME support fund (US\$66,650,000)

- 2.16 A privately-administered trust fund with a limited duration will be financed to provide financing for modernization and reconversion projects and projects to improve competitiveness, clearly aimed at generating foreign currency.
- 2.17 The trust fund will operate as a second tier institution, administered by a commercial bank as trustee. The fund will provide commercial banks chosen to act as intermediary financial institutions (IFIs) with discounted lines of credit (subloans) under market conditions, in accordance with the program's operating regulations, to finance undertakings by SMEs in the province of Río Negro.
- 2.18 Commercial banks that apply to participate in the program and are found eligible under the program's operating regulations can act as IFIs (paragraph 3.30). The entity selected to act as the trustee may not act as an IFI under the program. The IFIs will act as first-tier banks, and as such, can discount their subloans from the trust fund, based on the Operating Regulations.
- 2.19 Investment projects and associated working capital requirements will be eligible for rediscounted loans from the trust fund. The fund will also finance working capital for foreign trade operations (preshipment and shipment of exports) up to 18 December 2004 (minutes DEA/02/50 of 18 December 2002 and document AB-2221). Should the Board of Executive Directors of the Bank extend this deadline, the new date will apply to the proposed loan.
- 2.20 To ensure that the value of operations will be maintained, the discounts to be granted by the trust fund will be denominated in United States dollars and channeled to companies whose line of activities allows them to take the exchange risk. The fund's credit regulations will establish the obligation of the IFIs to conduct an evaluation of the capacity of each subborrower to absorb that risk. The commercial or credit risk of the subloans will be borne by the IFIs.
- 2.21 The annual interest rate to be charged on discounts granted by the trust fund to the IFIs will be variable. It will be set at the beginning of each month and will be readjusted quarterly for the discounts disbursed and those pending payment. In addition to the interest rate, the trustee may charge: (i) a commitment fee on unused amounts under the discount facility granted; (ii) an annual administration fee on amounts outstanding and a spread depending on the terms and market conditions. The above-described interest rate, fees and charges must cover the finance charges for the resources contributed by the trust fund beneficiary to the respective trust fund from both the Bank loan and other sources, plus all operating costs for the component. The above notwithstanding, the interest rate charged by the trustee to the IFIs may in no case be less than the net financial cost of 30-60 day United States dollar term deposits at the four commercial banks that have the highest amount of such deposits during the period in question. The rate will be calculated based on the

rate reported for those banks by the Central Bank of Argentina (BCRA) for the close of the month two months earlier. Calculation of the rate will also consider the volume of deposits at the four banks in the control group. Net financial charges will be understood to mean the lending spread on the deposit instruments considered, computed on the basis of the interest rate as previously defined, the legal reserves and their earnings, and mandatory holdings of public securities during the period in question.

b. Nonfinancial services (US\$3,170,000)

- 2.22 This component's activities will support the trust fund, seeking to improve the probabilities of the success of the subloans it finances. It will help to strengthen: (i) the capacity of entrepreneurs to prepare and carry out sustainable business plans; (ii) the capacity of the intermediary financial institutions to evaluate business plans that could potentially be financed; and (iii) the technical capacity of independent professional services to provide assistance in preparing and following up on the business plans.
- 2.23 To achieve these objectives, the component will finance:
- e. Promotion and awareness raising among potential beneficiaries of the mechanisms for gaining access to the subprogram to support SMEs. Meetings will be held with SMEs and their organizations and potential suppliers of professional services to present the content of the program as a whole and, specifically, of the subprogram to support SMEs.
 - f. Training for private operators in preparing business plans and for IFI employees in project analysis and risk evaluation. Agents known as 'private operators' will be identified, who will be chosen through a selection process to evaluate their technical and operating capacity. Registration will begin with the program and continue until it ends. The selected operators will be trained in formulating business plans. Employees from the IFIs will be trained in project analysis and risk evaluation.
 - g. Formulation and evaluation of business plans for investments and working capital. Potential SME beneficiaries will receive support of up to US\$800 to totally or partially cover the cost of drawing up their business plans. This contribution will be granted directly to the SMEs in two installments, against compliance with the following goals: (i) when the business plans obtain a nonobjection, 50 percent; and (ii) when the projects actually obtain a loan, the remaining 50 percent.
 - h. Verification of the use of the loans granted by the IFIs and evaluation of progress. This will be the mechanism for control over the trust fund's resources,

to ensure they are effectively and efficiently applied in the projects for which they were granted and to learn about the progress made in the business plans.

- 2.24 All SMEs (based on the definition adopted by the MERCOSUR countries) located in the province of Río Negro engaging in crop farming, livestock farming, industry, tourism, mining, fishing or the provision of services, excluding financial services, will be eligible for access to the nonfinancial services. They must be physical and/or juridical persons with adequate organization in the technical, legal and administrative aspects of their enterprise. They must also demonstrate that they have the operating capacity necessary to carry out sustainable business plans, within given time frames. They may participate in the program individually or in association. For associations, over half of the members must be small and medium-sized entrepreneurs. Financial support for preparing business plans will only be given to SMEs that use the services of this subprogram for the design and evaluation of business plans.

4. Follow-up, monitoring, evaluation and learning (US\$1,010,000)

- 2.25 The purpose of this subprogram is to provide continuous, up-to-date information on the program, as a tool for decision making by the project coordination unit, the managers of each subprogram and the private sector beneficiaries. This will permit the early detection of real or potential benefits and difficulties for the timely adoption of corrective measures during the program. To achieve this objective, a unit for follow-up, monitoring, evaluation and learning (USMEA) will be established for the program. The unit's main tasks will include:
- a. Designing and establishing a general database to provide continuous information on progress in the program.
 - b. Periodically evaluating the pertinence and impact of the results as compared to the preestablished objectives.
 - c. Conducting strategic studies on regional development and specific studies for program monitoring and evaluation.
 - d. Organizing workshops on monitoring and evaluation, training and dissemination of the knowledge acquired during the program.
 - e. Conducting the mid-term and ex post program evaluations.
- 2.26 USMEA will be subdivided into two areas: (i) the subunit for follow-up and monitoring, based at UPCEFE headquarters, which will be responsible for day-to-day budget control and input indicators; and (ii) the subunit for evaluation and learning, based in the Division of Programming, Studies and Evaluation of the Economic Policy and Programming Under-Secretariat (in Viedma), which will be responsible for conducting studies and workshops on the impact of the program.

- 2.27 USMEA will also have a master database containing information on the socioeconomic indicators of the beneficiaries and data on program management and impact. It will be a management and information database and be built in modules to capture the different information requirements for each group of users. The program's logical framework (Annex II-1) will be the basic document for determining the information to be provided by the system.

C. Cost and financing

- 2.28 The program will cost a total of US\$86.5 million, to be distributed by source of financing and investment category as shown in Table II-1 below.

Table II-1. Program costs (US\$ thousands)

Category	OC/ LIBOR	OC/US\$	Local	Total	%
Administration and Management	1,470		1,450	2,920	3.4
Executing unit	1,470		1,450	2,920	3.4
Direct costs	7,480	40,000	31,720	79,200	91.7
1. Modernization of support services for the productive sector	2,490		2,130	4,620	5.3
1.1 Strengthening in management, regulation and supervision	1,990		1,750	3,740	4.3
1.2 Strengthening in programming and evaluation	500		380	880	1.0
2. Promotion of exports and investments in the province of Río Negro	1,790		1,960	3,750	4.3
2.1 Development of clusters	950		920	1,870	2.2
2.2 Promotion of exports and investments	760		1,010	1,770	2.0
2.3 Institutionalization of Pro Río Negro Patagonia	80		30	110	0.1
3. Support for modernization of SMEs	2,650	40,000	27,170	69,820	80.8
3.1 Fund to support SMEs	--	40,000	26,650	66,650	77.1
3.2 Nonfinancial services	2,650		520	3,170	3.7
4. Follow-up, monitoring, evaluation and learning system	550		460	1,010	1.2
Concurrent costs	520		--	520	0.6
Auditing	520		--	520	0.6
Unallocated	1,011		--	1,011	1.2
Contingencies	1,011		--	1,011	1.2
Financial costs	1,015	404	1,430	2,849	3.3
Interest	900			900	1.0
Credit fee	--	--	1,430	1,430	1.7
Inspection and supervision	115	404	--	519	0.6
Total	11,496	40,404	34,600	86,500	100
Percentage	13.3%	46.7%	40%	100%	

- 2.29 The Bank will finance 60 percent of the program, equivalent to US\$51.9 million, from the Ordinary Capital. The borrower has opted for the dollar window, with variable interest, to finance the component to provide support for SMEs (US\$40.4 million), while the other subprograms and components will be financed in United States dollars under the Single Currency Facility, with variable interest linked to the LIBOR rate (US\$11.5 million), as established in the Executive Summary. The local contribution of US\$34.6 million will come from the provincial government (US\$7.1 million), the participating banks (US\$17.5 million) and the beneficiaries (US\$10 million).
- 2.30 The administration and management category will cover the procurement of equipment for the PCU, additional management staff, the UNDP services, to be hired with local counterpart funds, and establishment of the UPCEFE follow-up and monitoring subunit, along with operating expenses for program administration, such as per diem and transportation.

III. PROGRAM EXECUTION

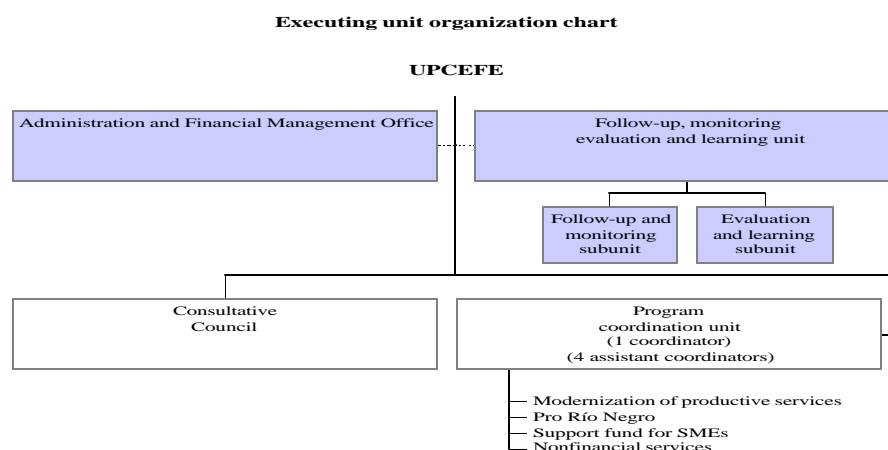
A. Borrower, guarantor and executing agency

- 3.1 The borrower will be the Province of Río Negro and the guarantor will be the Argentine Nation. The executing agency will be the Provincial External Financing Coordination and Execution Unit (UPCEFE),² which has its headquarters in Buenos Aires but reports to the province's governor. The trustor of the trust fund will be the Province of Río Negro, through its Department of Finance.

B. Program execution and administration

1. General plan

- 3.2 The provincial government will establish a program coordination unit (PCU), which will report directly to the UPCEFE, to execute the program. The PCU will have an executive coordinator and four technical assistant coordinators. It will also have the support of the Administrative and Financial Management Office (existing) and the follow-up, monitoring, evaluation and learning unit (to be established), both of which will form part of the UPCEFE. A program consultative council will be established to provide supervisory support.
- 3.3 The structure of the PCU is shown below. The shaded boxes represent the government's permanent structures and the plain boxes represent the temporary structures necessary to execute the operation.



² The UPCEFE was created under Provincial Decree No. 1265 of 7 August 1996, with headquarters in the city of Buenos Aires and the responsibility of coordinating the execution of loans with external financing.

2. The program coordination unit

- 3.4 The PCU will consist of the executive coordinator of the program and specific assistant coordinators for the following areas: (i) modernization of productive services; (ii) Pro Río Negro; (iii) the support fund for SMEs; and (iv) nonfinancial services. ***Prior to the first disbursements, the borrower will demonstrate that the PCU and the unit for follow-up, monitoring, evaluation and learning have been legally established and are in operation.***
- 3.5 The **consultative council** will be composed of the Minister of Finance, the Minister of the Public Service, the Minister of Production, the Minister of the Fruit Industry, the Minister of Tourism, the Manager of CODEMA, the Deputy Minister for Economic Policy and Planning and the President of CREAR's Board of Directors. The council's mission will be to: (i) analyze and evaluate the progress made in the program; (ii) undertake the institutional reforms to which they are committed; (iii) approve or arrange to obtain approval for reforms linked to the processes of generating and allocating resources; and (iv) ensuring that the local counterpart required for compliance with the work program is made available.
- 3.6 The **executive coordinator's** main function will be to coordinate program execution, reporting on progress in the subprograms to the Bank and the province. The four technical assistant coordinators will report directly to the general coordinator and will be responsible for supporting the execution of their respective subprograms or components and for controlling their quality.
- 3.7 The **Administration and Finance Office (GAF)** will be strengthened by contracting an accountant, a procurement specialist, two assistants in these areas, and the UNDP. The GAF will be responsible for supporting the PCU in: (i) carrying out or coordinating with the UNDP the program's bids and contracting; (ii) making the payments approved by the operations coordinator; (iii) keeping the accounts and financial control of the program; (iv) following-up on compliance with the contractual clauses that are its responsibility; (v) preparing financial statements, disbursement requests and other reports required by the Bank; and (vi) serving as counterpart in the external audits.
- 3.8 The **UNDP** will be contracted from the local counterpart, at a cost of 3 percent of program funds, except for the trust fund. In managing these resources, the UNDP will keep separate accounts for the loan and the counterpart. Its **specific functions will be**: (i) contract management; (ii) management of disbursements from the loan account and receipt of the counterpart contributions; (iii) support and management in international bids for goods, their import, customs clearance and payments abroad; (iv) accounting assistance and provision of information systems for the program's financial records and monitoring; and (v) preparation of reports on financial management and execution.

- 3.9 The **follow-up, monitoring, evaluation and learning unit** will report to the UPCEFE and will be structured into two subunits: (i) the subunit for monitoring, which will be directly linked to the UPCEFE, will be responsible for the follow-up and monitoring module; and (ii) the evaluation subunit will be responsible for the evaluation and learning module, and will report to the Economic Programming Under-Secretariat.

3. Participating institutions

- 3.10 The participating institutions are divided into two groups. The first are the provincial beneficiary agencies (PBAs) composed of the Departments of Production, the Fruit Industry and Tourism, the Economic Policies and Programming Under-Secretariat and CODEMA. They will be the beneficiaries of institutional strengthening activities and have the responsibility of appointing the assistant coordinators of subprograms I and II and the necessary support staff. *As a condition precedent to the first disbursement of the loan, evidence must be submitted that the regulations under the decrees to reorganize staffing in the PBAs have entered into force.* The second group includes the Departments of Finance and the Public Service, which will have responsibilities for supporting program execution. The local counterpart will be used to finance the incremental costs related to the remuneration of the employees selected for the new functions created during the program in the PBAs.

C. Execution of the subprograms

1. Modernization of support services for the productive sector

- 3.11 This subprogram will be executed through the assistant coordinator for modernization of services for the productive sector, who will have the support of the PBAs, the Department of Finance and the Department of the Public Service. The assistant coordinator's functions will be to: (i) supervise compliance with the subprogram's goals; (ii) supervise and approve preparation of the terms of reference for the procurement of consulting services and goods prepared by the PBAs and the departments responsible for cross-cutting actions; (iii) participate, in cooperation with the Administration and Finance Office, in the processes of contracting goods and services for the subprogram; and (iv) oversee compliance with the schedule of activities.
- 3.12 Each PBA will be composed of the employees assigned by each beneficiary department and CODEMA to support execution of the subprogram. The employees assigned by each department or beneficiary agency will carry out the activities as described in paragraph 2.4. The general functions of these PBAs will be: (i) to prepare the terms of reference for contracting consulting firms and individual consultants; (ii) to develop the activities requested by the assistant coordinator related to the tasks of strengthening the department or beneficiary agency; (iii) to

act as technical counterpart for their department or agency with the individual consultants, consulting firms and departments offering cross-cutting support; and (iv) to provide logistical support for the subcoordinating unit, for the organization of workshops and seminars for the subprogram.

- 3.13 The Departments of Finance and the Public Service will provide cross-cutting support under the direction of the assistant coordinator, with respect to strengthening management capacity and training in public management. To comply with this mission, each department will assign committed employees, as described in paragraph 3.10. In addition to the functions described for the PBAs, the employees will support the subcoordinating unit in coordinating and assigning the human resources committed by the PBAs.

2. Promotion of exports and investments in the province of Río Negro

- 3.14 This subprogram will be executed through the three components described in Chapter II, paragraphs 2.9 to 2.14. The assistant coordinator will receive support from a technical team composed of an association of an international and a local consulting firm and personnel from local agencies, such as the Department of Tourism and CREAM for logistical support. The functions of the assistant coordinator will be the same as the functions described for the assistant coordinator of the subprogram for modernization of support services for the productive sector. The execution timetable for the three components has been designed so that some stages or activities can be carried out in parallel.

a. Formation of clusters

- 3.15 Technical execution will be supported by an association of an international and a local consulting firm, which will provide technical assistance and training for CREAM in developing clusters. The association will also be responsible for organizing logistics and coordinating interviews, workshops and working meetings. The consulting firms should have specialists in communications present in Bariloche and the upper valley. Last, the provincial government, through the Department of Tourism and CREAM, will provide technical and support staff in Viedma, Bariloche, the upper valley, the middle valley and el Bolsón.

b. Promotion of exports and investments

- 3.16 Two types of activities are included in technical execution of this component: (i) activities linked to export promotion; and (ii) activities linked to the promotion of domestic and foreign investment, to begin in the third year of the project. The export promotion activities will have an initial stage involving support for companies with the capacity to earn foreign currency immediately, which will be implemented simultaneously with the cluster-formation component. Execution of the initial stage will be supported by consulting services provided by experts in

export promotion and CREAR. In this stage, a mission will be sent to the main foreign markets for each of the clusters. The program will finance travel, the rental of space at trade fairs and institutional publicity.

- 3.17 Execution of the **commercial strategy** will begin in the second year of the subprogram, after the clusters have been established in the Andes region, and in the upper valley and the middle valley. This strategy will be executed with the participation of the export promotion and investment agency (CREAR), starting in year three, with support from the consultants specializing in export promotion. The strategy includes visits to fairs and missions to explore new markets and potential buyers. The program will only finance intelligence before the fairs and the cost of interpreters, guides and materials.
- 3.18 The **investment promotion activities** will begin in the third year of this component, in parallel with the main export promotion strategy. These activities will be carried out with the assistance of CREAR and specific consulting services, to improve and publicize the province's image and investment opportunities.

c. Institutionalization of Pro Río Negro-Patagonia

- 3.19 This component will begin in the third year of the program. CREAR, the Department of Tourism and the members of the cluster will participate, with support from a legal consultant to develop the institutional model and draft the bylaws of the entity, and its organizational design. Individual consulting services will be required to design the administrative model for the new promotion agency, including the professional profiles of the technical team to be contracted. A specialist in business administration will be hired to direct the agency's operations for the first two years.

3. Support for modernization of the production of SMEs

- 3.20 This subprogram will be divided into two components: the fund to support SMEs and nonfinancial services.

a. Fund to support SMEs

- 3.21 Coordination of this component will be the responsibility of the fund's assistant coordinator, who will be supported by the commercial bank that will act as trustee and have the following basic responsibilities: (i) to administer the fund; (ii) to evaluate and grant the lines of credit to eligible IFIs; (iii) to keep the fund's accounts; (iv) to perform financial follow-up on the loans; and (v) to provide information for the assistant coordinator and the monitoring and follow-up unit.
- 3.22 This component will be executed through a trust fund created to transfer loan proceeds to the beneficiary SMEs through regulated financial institutions (IFIs).

- 3.23 The contract to act as trustee of the fund will be awarded on the basis of lowest administrative costs and the best guarantee offered by the financial institutions found eligible to bid. The bidders should be regulated by the BCRA and also comply with the following eligibility requirements: (i) be in full compliance with the technical rules established by the BCRA or be adequately and opportunely complying with a restructuring plan approved by the BCRA; (ii) not have among their liabilities, liquidity discounts from the BCRA in excess of their assets in guaranteed Argentine public debt; (iii) have an operating presence in at least two cities in the province; and (iv) have at least two years experience in managing financial trusts.
- 3.24 The executing agency will select the trustee, with the Bank's nonobjection. The obligations of the trustee will be spelled out in the trust contract. The trust fund will remain in effect for the total disbursement period plus the period for amortizing the province's debt to the bank (see the details in the Operating Regulations of the subprogram).
- 3.25 The participating IFIs will be commercial banks whose eligibility to join the program will be determined by the trustee on the following basis:
- (i) Be duly established and operating as a first-tier commercial bank under the Financial Entities Law, No. 21526, the amendments thereto, and all other applicable regulations.
 - (ii) Have a presence in the province of Río Negro through branches in at least two cities.
 - (iii) Comply with the technical regulations of the BCRA and with the specific comments made by it, or be adequately and opportunely complying with a restructuring plan approved by the BCRA.
 - (iv) Do not have among its liabilities, liquidity discounts from the BCRA in excess of its assets in guaranteed Argentine public debt.
 - (v) Present satisfactory evidence to the trust company that it is adequately organized to promote, process, analyze, execute, manage and supervise the subloans and recoveries and comply with the program's operating rules.
- 3.26 The eligible beneficiaries will be SMEs located in the province of Río Negro, with gross billings of not more than US\$3.5 million. Their eligibility as takers of credit will be determined in each individual case by the participating IFIs.
- 3.27 The financial resources for the subprogram will come from:

- (i) IDB disbursements through a revolving fund and/or reimbursement of payments made to the trust fund for a maximum of up to US\$1 million per debtor in the program as a whole.
- (ii) The amount of the subloans to be granted by one or more IFIs to the same undertaking may not be more than 85 percent of the total eligible costs of the undertaking in question.
- (iii) The local counterpart for this component will come from the contributions of the IFIs (25 percent) and the SMEs (up to 15 percent of eligible costs).
- (iv) Recoveries of the portfolio will be reinvested by the trust in new subloans through the participating IFIs, under the conditions established in the credit regulations.

3.28 The loan proceeds assigned to this component will be disbursed directly into the special account for the trust fund in the BCRA on the request of the program executing unit. Transfers or disbursements to the trust fund will be subject to the conditions established in the trust contract and the other operating regulations for the component. For each disbursement of provincial financing to the trust, the province will receive proportionate security bonds from the trust, under the same conditions of amount, terms and rates as the Bank financing.

3.29 *As a condition precedent to the first disbursement for this component, the executing agency will: (i) have approved and placed in effect operating rules for this component satisfactory to the Bank; (ii) have opened two specific bank accounts for the trust fund in the BCRA for administration of the resources for this component, one to directly receive the Bank transfers to the trust fund and the other to handle recoveries and reinvestments; (iii) have opened specific bank accounts to manage the component's funds; (iv) have an accounting system that permits the reporting and control, to the Bank's satisfaction, of the proceeds from the loan and the local counterpart for the component; and (v) ensure that the trust fund has an accounting system that allows for the recording and control of the loan proceeds, recoveries, reinvestments and the local counterpart funding for this component, and that must also identify the amounts provided by the trust fund to cover claims.*

3.30 The above-mentioned Operating Regulations, which will govern this program component, will be composed of: the model trust contract and its annexes (Appendix 1: credit regulations of the trust; Appendix 2: disbursement regulations of the trust; Appendix 3: eligibility requirements of the trustee; Appendix 4: model guarantee contract; Appendix 5: auditing rules; Appendix 6: models of bond A and share certificate B; Appendix 7: IFI eligibility requirements; Appendix 8: model management contract for portfolio collections and monitoring; Appendix 9: rules

for monitoring the performance of the IFI; Appendix 10: rules for portfolio monitoring; Appendix 11: IFI participation agreement; Appendix 12: invitation to bid; Appendix 13: projected financial statements).

b. Nonfinancial services

- 3.31 The assistant coordinator of nonfinancial services will be responsible for coordination of this component and will have the support of a technical team composed of an environmental expert in the PCU main office, two sector specialists in the upper valley – middle valley and one sector specialist in Bariloche and el Bolsón in carrying out the activities described in paragraph 2.23. Each specialist will have an assistant. Support will also be forthcoming from trainers in business plans, private operators that prepare business plans, and business plan evaluators.
- 3.32 The assistant coordinator will have the following functions: (i) to supervise compliance with the goals; (ii) to evaluate the performance of the persons responsible for execution; (iii) to oversee compliance with the operating regulations; (iv) together with the follow-up unit, to monitor progress in the component; (v) to determine any changes that are necessary to correct problems as they arise; (vi) to monitor and ensure that the timetable for reporting to the Bank is complied with; and (vii) to carry out all other actions, in permanent coordination with the rest of the program.
- 3.33 The sector specialists will be responsible for the following activities: (i) promoting the program and raising awareness among entrepreneurs; (ii) administering the register of private operators; (iii) training and coordinating technical assistance for private operators and the IFIs; (iv) coordinating with the entrepreneurs the signature of agreements to make nonreimbursable contributions and their disbursement; (v) coordinating control of the business plans and contracting of the plan evaluators; (vi) checking the evaluators' reports on the business plans; (vii) coordinating and checking the reports on follow-up and verification of the use of the loans; (viii) overseeing compliance with the Operating Regulations; (ix) continuously monitoring the work of the private operators and the number of entrepreneurs served by the program; and (x) coordinating the information needed to prepare reports for the Bank.
- 3.34 Formulation, processing and following up on the business plans:
- a. *Formulation and processing.* Identification and selection of eligible enterprises and the formulation of their business plans will be performed by private operators qualified by the program. When the business plans have been drawn up, they will be presented for evaluation. The evaluations will be performed by plan evaluators under the direction of the sector specialist. The nonobjection to a business plan will be given by the component's assistant coordinator. SMEs whose projects obtain a nonobjection may accede to a subsidy of up to US\$800

for preparing their business plans. The payment is conditional on the presentation of a business plan, its formulation under the program **is voluntary and is not a condition**. The conditions for granting a loan are described in the credit regulations.

- b. *Follow-up*. As a condition precedent to granting the loan, the SME must sign a document authorizing the nonfinancial services coordinator to: (i) verify the use of the loan and the amount of the investment; and (ii) evaluate progress in the business plan.

4. Follow-up, monitoring, evaluation and learning

- 3.35 The assistant coordinator of USMEA will report directly to the UPCEFE, so that the program's impact can be evaluated objectively. USMEA is divided into two areas.

a. Follow-up and monitoring subunit

- 3.36 This subunit will be in charge of day-to-day control over activities, such as management of the budget, compliance with indicators for program inputs and physical or financial outputs. It will be linked to the PCU for the preparation and presentation of annual operating plans (AOPs) and the semiannual progress reports that will serve as the foundation for program administration. The assistant coordinator of USMEA will supervise the work of tracking the AOPs in cooperation with the PCU, maintaining a global vision of the problems encountered and measures to address them.
- 3.37 In addition to the activities directly linked to the AOPs, the subunit for follow-up will also be in charge of periodic monitoring of the indicators in the logical framework (Annex II-1). The assistant coordinator of USMEA will coordinate the preparation, analysis and publication of periodic reports with the results obtained from the analysis performed by this subunit

b. Subunit for evaluation and learning

- 3.38 This subunit will be located in the Division of Programming, Studies and Evaluation of the Economic Policy and Programming Under-Secretariat (in Viedma). The under-secretariat will be strengthened through the activities mentioned in the component to strengthen the programming and evaluation capacity of the economic information system (paragraph 2.5), which will permit it to evaluate the impact of the program.
- 3.39 The subunit for evaluation and learning will prepare specific strategic studies on regional development to evaluate the impact of the program (i.e. competitiveness of the productive sectors, case studies of successful SMEs). It will also select individual consultants to carry out studies that require specific skills that are not

available in the subunit. Apart from the studies, it will carry out learning activities, such as workshops to publicize the knowledge acquired during the program; seminars to discuss the results of the studies; and training in program monitoring and evaluation. A web page will be used to publicize the program, which can be consulted through links to the web pages of the province, Pro Río Negro and RE1/EN1.

c. Information system

- 3.40 USMEA will also have a master database containing information on the socioeconomic indicators of the beneficiaries and data on program management and impact. It will contain management data and information and be built in modules to capture the different information requirements of each group of users. The program's logical framework (Annex II-1) will be the basic document for determining the information to be provided by the system.
- 3.41 It will be able to capture data and export information from and to environments outside the system (electronic schedules, statistical packages, etc.). It will also have the capacity to generate standard information (predefined and available from a menu) and made-to-measure information (constructed by a specific user from the data in the system). USMEA will have two consultants to develop the conceptual design of the system and start it up.

d. Coordination with the other subprograms

- 3.42 To integrate program follow-up and evaluation with program management, the assistant coordinator of USMEA will agree with the assistant coordinator of each subprogram or component to assign a person, known as a 'referent' to carry out specific follow-up and evaluation activities within that subprogram or component. The 'referents' will report operationally to their own assistant coordinator but a specific amount of their time will be set aside to perform monitoring and evaluation functions. In consultation with the other assistant coordinators, the assistant coordinator of USMEA may: (i) invite the referents to attend USMEA activities involving training, study planning and evaluation of results; (ii) request that specific products be generated from inside their subprogram; and (iii) hold periodic meetings between the referents and USMEA as a whole.

5. Evaluation plan

- 3.43 The borrower has opted to conduct an ex post evaluation of the program, which will be financed by the executing agency, 18 months after the date of the last disbursement. By waiting for 18 months, it will be possible to measure the impact of the program on institutional modernization and of the investments to upgrade hotels or modernize fruit farming (e.g. frost protection). Investments made in industrial reconversion will not be evaluated, since they will take from six to eight

years to mature. The ex post evaluation will cost an estimated US\$45,000. The Directorate of Programming, Studies and Evaluation will bear technical responsibility for performing it. The evaluation will use a methodology similar to the one used for the ex ante analysis and the following main activities are planned: (i) establishing the methodology for the evaluation and constructing the baseline; (ii) performing and submitting a mid-term evaluation 30 months after the first disbursement; and (iii) performing an ex post evaluation 18 months after the program ends.

- 3.44 Various strategic and specific studies will be carried out during the program to support the evaluation. A series of progress reports, the results of the mid-term evaluation, and the results of monitoring the indicators in the logical framework will be available to permit the Bank to perform periodic monitoring. The data compiled will be synthesized, interpreted and remitted to the Bank in annual reports starting at the end of the first year of execution. The mid-term evaluation will consolidate the main conclusions and recommendations for corrective measures obtained from the follow-up and monitoring activities and the evaluation studies performed to date. For this activity, the subunit will hold a workshop for presentation and discussion with the assistant coordinators, entrepreneurs, etc. Also, *a detailed description of the information system and the procedures used to compile and process information will be presented six months after the first disbursement.* Seminars and workshops will be held to discuss and adjust the methodology originally proposed.

D. Execution period and disbursement schedule

- 3.45 The execution and disbursement period for the program will be five years. The following table presents the schedule.

Table III-1. Disbursement schedule by year of execution

Source of financing by subloan	TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5
I. Support fund for SMEs						
1. IDB	40,404	8,100	10,100	10,100	8,100	4,004
2. Local	27,910	4,670	7,133	7,095	4,536	4,476
II. Investments						
1. IDB	11,496	2,908	3,003	2,101	1,713	1,771
2. Local	6,690	1,898	1,627	1,239	1,037	890

E. Revolving fund and currency of the loan

- 3.46 The financing will come from two windows: (i) the dollar window, with a variable interest rate, for the component for the SME support fund, which will have a revolving fund of 10 percent; and (ii) the single currency facility, with interest linked to the three-month LIBOR rate, for the other subprograms and components, with a revolving fund of 5 percent. The 10 percent revolving fund for the SME fund component is justified since the dollar window only permits four disbursements to be made in a year.
- 3.47 To keep effective control over the funds transferred to the program **single, separate bank accounts will be opened to manage the resources transferred to the trust fund (account in the Central Bank) and two single, separate accounts will be opened to manage the proceeds from the loan and the counterpart for the other subprograms and components.** In the document transferring responsibilities to the Bank's Country Office in Argentina, it will be recommended that the loan management system differentiate the proceeds that go to the trust fund from the proceeds for the other subprograms and components.

F. Procurement

- 3.48 The procurement of goods and services and the contracting of consulting services will be subject to the bid procedures specified in Annexes B and C of the Loan Contract. When the estimated cost of goods and services is US\$350,000 equivalent and over, they will be subject to international competitive bidding as specified in Annex B. All consulting contracts for US\$200,000 equivalent and over will be subject to international competitive bidding. Consulting services will be contracted as specified in Annex C of the contract. The goods and services to be contracted are presented in the procurement plan (Annex III-1).
- 3.49 Consulting services will be contracted in accordance with the Bank's standard procedures and the procedures established in document GN-1679-3. For this program, in cases of selection based on quality and cost, the relative weight of price as an evaluation criterion will not exceed 30 percent and the technical or quality element may not be less than 70 percent. The PCU will be responsible for signing all contracts for goods and services; however, the PCU may delegate preparation of the bid documents to the technical support institutions when their value is below US\$200,000.
- 3.50 As an exception to international competitive bidding, it is recommended that the Economic Commission for Latin America and the Caribbean (ECLAC) be contracted directly, through its office in Buenos Aires, since it is a United Nations agency with a long history of economic studies and analysis, preparation of statistics and technical assistance to the countries and regions in its specific areas of expertise. ECLAC, through its Statistics and Macroeconomic Projections Division,

has supported implementation of the system of national accounts and is currently promoting the introduction of the tourism satellite account in Latin America. ECLAC has the necessary experience and expertise to provide technical assistance and support for the preparation of economic statistics and for strengthening the statistical systems of the different national statistics offices in the Latin America and Caribbean countries, methodological development and field work for the preparation of national and regional accounts, and studies on the input-output matrix. It maintains a statistical database and prepares regional indicators.

- 3.51 In terms of institutional advantages, ECLAC's Buenos Aires office is conducting similar fieldwork on the national level and for the government of the city of Buenos Aires. By participating in provincial statistical activities in Río Negro, ECLAC will contribute its experience in developing methodologies and survey instruments.
- 3.52 Therefore it is proposed to contract ECLAC directly under an agreement for an estimated US\$407,000, because of its capacity and experience in the region and particularly in Argentina in the field of national accounts. ECLAC will also contribute its expertise as the international agency that specializes in supporting the preparation of tourism statistics in Latin America, following the new international methodology that is novel in Argentina.
- 3.53 Twelve months after the first disbursement of the loan, if it is demonstrated that the executing unit has the capacity to carry out procurement processes in accordance with Bank policies and rules, the Bank may consider, after receiving a substantiated request by the executing agency, the possibility of adopting the system of ex post reviews of procurements and contracts. If it agrees, the ex post reviews would be based on sampling for contracts with individual consultants under US\$50,000 and contracts with consulting firms under US\$100,000 and for goods costing less than US\$350,000 equivalent. If the ex post review of the documentation and procedures used to select the consulting services and in the procurement processes finds inconsistencies with Bank policies, the activities in question will not be financed with program resources. Also, should this situation arise, the Bank may revert to the initial procedure, with ex ante reviews, or establish ex post reviews at different thresholds.

G. Cost recognition and retroactive financing

- 3.54 The borrower has asked the Bank to recognize: (i) spending in the amount of US\$250,000 from the local counterpart; and (ii) retroactive financing in the amount of US\$100,000. These expenditures were incurred during program preparation (consulting and specialized technical services) and will be charged against the PCU.
- 3.55 The Bank may recognize costs from the local counterpart that were incurred within 18 months prior to approval of a loan by the Board of Executive Directors. Also, retroactive financing can be used for costs incurred 12 months prior to approval of

the loan by the Board. The procedures should be substantially similar to those set out in Annexes B and C of the Loan Contract.

H. Auditing

- 3.56 The executing agency will present to the Bank within 120 days following the close of each fiscal year, the audited financial statements of the program and the trust fund, duly certified by an independent firm of auditors acceptable to the Bank. The audits will be performed in accordance with terms of reference previously approved by the Bank (document AF-400) and the Bank's external auditing policy and requirements (documents AF-100 and AF-300). The auditing costs will be paid for from the loan proceeds. The Bank's standard procedures will be followed for the selection and contracting of the external auditor (document AF-200).

IV. FEASIBILITY AND RISKS

A. Technical feasibility

- 4.1 The program is feasible and justified since it responds to the province's development strategy, which gives priority to the areas of investment envisaged in the program. The program is divided into four subprograms that involve: (i) institutional changes on the provincial level to achieve better public management and support for the private sector; (ii) a new vision of the entrepreneurial class in the promotion of exports and the capture of new domestic and international markets; (iii) a fund to support SMEs, conditional on planning the use of the loans under business plans; and (iv) a module for monitoring, follow-up, evaluation and learning. This innovative program provides more than a temporary solution to the financial crisis as it affects access to credit by SMEs; it is also designed to promote integration of the public and private sectors.
- 4.2 Technical annexes were prepared for each subprogram, which include a description of the investments planned and the execution scheme. The annexes were developed and discussed with the beneficiaries and the borrower and their content reflects a high degree of ownership. The execution time frames take difficulties that are often encountered in institutional modernization projects into consideration. Operating regulations were prepared for subprogram 3, based on the experience of other projects that have been or are being carried out in the country. The regulations were discussed with the borrower, potential beneficiaries and potential IFIs.
- 4.3 The resources assigned to the fund to support SMEs will be placed through a second-tier mechanism operated through a trust, thereby providing additional legal security for the resources. The establishment of a trust will allow the subloans discounted by the IFIs to be kept legally separate from the assets of the trust and of the IFIs, providing the provincial government with an additional safeguard that the funds it lends to the trust will be recovered. This means that should the trustee or an intermediary fail, it would not affect the assets backing the government's financial claim on the trust, thereby almost completely mitigating any additional bank risk that might exist as a consequence of the impact of the crisis in the Argentine financial system.
- 4.4 In addition, the province and the BCRA will establish a plan to automatically debit the accounts of the IFIs in the BCRA in favor of the trust when their discounted subloans fall due, which will help to reduce the institutional risk of the component.
- 4.5 The resources belonging to the IFIs included in the discounted subloans from the trust (approximately 25 percent of the total for each one) will be endorsed to the trust as a guarantee of its financial claims on the IFIs. This is a clear improvement in assurances that the principal and interest will be recovered.

- 4.6 The use of a global credit operation for SMEs that is only provincial in scope and the use of a trust administered by a private trustee are justified because:
- a. National programs to finance SMEs carried out through second-tier mechanisms have traditionally focused on the large urban areas. Studies conducted by ECLAC in 2002 indicate, for example, that of all the funds disbursed in the operation for microenterprise and small business, stage II (IDB loan 1192/OC-AR) at December 2002 (about US\$22 million), Río Negro had just one operation for US\$5,000. A national operation, particularly in the current situation of repressed demand, would have similar results.
 - b. The use of a trust with a given closing date makes it feasible to channel resources without the need to create additional bureaucracies, even in a context of macrofinancial volatility such as exists at present in the country as a consequence of the monetary-exchange crisis at the start of 2002.
- 4.7 An analysis of demand was performed as the first step in calculating the size of the trust fund component. Quantitative criteria were initially used to identify the existence in the province of about 9,000 SMEs. Next, an evaluation was performed of the nature of the activities and income flows of the companies identified, which concluded that about 3,000 companies could present business plans that could be financed in foreign currency, that would potentially be eligible for financing from the trust fund.
- 4.8 Last, the level of debt and risk classification of the 3,000 companies at the start of 2002 were analyzed and it was found that a large number were heavily in debt and/or presented risk classifications of 4 or 5 (nonperforming), which made them ineligible for the program. As a result, it was concluded that if these debt and repayment performance conditions continue, about 25 percent to 30 percent would be able to accede to financing from the trust fund.
- 4.9 This last assumption is proving to be very conservative, since a partial survey conducted in February 2003 found that as a result of the pesification of their bank debts and the heavy devaluation of the peso during 2002, a large number of SMEs with financial problems have solved their situation very favorably, which has allowed them to become subjects of credit from the banking system once again.
- 4.10 In addition to the scaling of demand, the current and historical supply of credit for SMEs in the province was evaluated. Forecasts of economic growth in Argentina (3 percent in 2003 and higher in subsequent years), coupled with the low projected growth in the monetary aggregates in the coming years, suggest that there will be scant financing available for productive and export activities through the financial system, particularly in the case of provincial undertakings which, even under normal conditions, have historically had serious difficulties in gaining access to credit.

- 4.11 An evaluation of the historical supply/demand for credit in the sector indicates that in 1999, for example, export-oriented SMEs that had access to the Bank's SME program obtained bank financing for about US\$1.2 billion. In 2002, on the other hand, with similar export volumes and amounts, they obtained almost no financing at all. Although specific figures are not available yet, in December 2002, total bank loans to the nonfinancial private sector were less than US\$2.5 billion, and mostly went to large enterprise and consumers.
- 4.12 Given the prospects of a significant increase in exports in 2003 and the coming years and continuing sharp restrictions on growth in the liquid resources in the banking system, it is expected that demand for program resources will outstrip the amounts available. Accordingly, the increase in the supply of credit to be provided under this component will make it possible to at least partially satisfy immediate demand for export prefinancing and working capital associated with investments and, in the medium term, investments to modernize SMEs in Río Negro.
- 4.13 A recent study conducted by the PCU of the microenterprise and small business program indicates that most exporters are medium-sized companies. When it analyzed exporters by billing tranches, the study found that out of a total of 21,500 exporters, 98 percent (20,993) billed for less than US\$6 million and that their exports totaled US\$4,826 million (17.8 percent of the total). These companies noted that their heavy dependence on financing makes it difficult to deepen their external market position. The conclusions of that study apply to the case of Río Negro, where a recent provincial study shows that demand for credit by entrepreneurs with eligible credit profiles is above US\$120 million.
- 4.14 From the context described, it can be concluded that: (i) the changes in economic policy are suitable for carrying out a program that maintains and promotes exports of the goods and services produced by small and medium-sized companies; (ii) conditions in the financial system and the substantial reduction in credit justify the creation of a provincial credit program for SMEs; (iii) the gradual return to normal of the banking system demonstrates the trend towards its reestablishment as the motor for mobilizing financial resources; and (iv) the equity situation of the financial entities confirms that the trust is a suitable operating and institutional instrument for the program.

B. Institutional feasibility

- 4.15 The institutional feasibility of the program was examined from the standpoint of the capacity of UPCEFE and the other participating institutions to carry out the activities included in it. Based on the analysis described in paragraphs 1.14 to 1.18, the situation of each of the provincial agencies that will have technical and/or institutional responsibility for program activities and for their sustainability was reviewed. Their strengths and weaknesses were identified and an institution-

building plan was proposed (paragraph 2.3), with support from consultants to ensure the quality of execution.

- 4.16 While the program was being prepared, there was close coordination with the provincial government agencies that will support execution. The provincial beneficiary agencies (PBAs) also helped to design the components in which their participation was relevant. As a result, agreements were reached between the PBAs and the borrower.
- 4.17 With respect to the UPCEFE, its experience in executing programs with the Bank and with other multilateral organizations, such as the IBRD and the European Union, was verified. It has the support of other provincial government agencies with substantial experience in projects similar to the one proposed here. Although the UPCEFE has the experience and capacity for the administrative, managerial, accounting and financial control, programming, follow-up, supervision and evaluation of the actions envisaged in the program, its policy is to maintain a skeleton staff to respond to the needs for executing provincial projects. Accordingly, to ensure that the proposed execution mechanism has an adequate organizational structure and procedures for internal control, the Administration and Finance Office will be strengthened with additional personnel (paragraph 3.7) and with support from the UNDP in technical, operational and administrative aspects, such as procurements of goods and services, and USMEA will be established as a permanent body (paragraph 3.9). The technical aspects that are specific to the program will be covered by establishing the PCU, which will support the PBAs and the bodies that provide horizontal support.

C. Socioeconomic feasibility

- 4.18 In Argentina, the competitiveness of the sectors that earn foreign currency has improved, largely because of the changes in the exchange policy. The program will help to consolidate the competitiveness of the productive sectors of Río Negro, by improving public sector management, supporting development strategies that are agreed on by the public and private sectors, and providing medium- and long-term resources through the trust fund to improve the overall productivity of SMEs.
- 4.19 Through the subprogram for modernization of government, it is expected that the transaction costs of the province's businesses will fall and the quality of services (e.g. hotel classification) will rise, which will boost the competitiveness-cost and competitiveness-quality of the companies. It is also expected that the promotional activities included in subprogram 2 will have a significant impact on the positioning of products on international markets, helping to increase exports and attract tourists and investors to the province. The economic feasibility of the businesses to be financed under subprogram 3 will be ensured by the analysis of the business plans and the credit evaluation performed by the IFIs of the SMEs' projects. Given the

plan for determining the lending rate to be charged by the IFIs, the cost of capital will be the opportunity cost defined by the market.

- 4.20 As a result of program interventions, an additional increase in the gross provincial product is expected (about 7 percent in a moderate scenario) as well as an improvement in tax revenues that will help to balance public finances as a result of growth in the provincial tax base, for a primary fiscal surplus in 2006 (Braun, M. 2003. "Fiscal impact of the program for productive reconversion in the province of Río Negro", pages 37-45).

D. Fiscal and financial feasibility

- 4.21 The financial and fiscal feasibility of the program was studied from the standpoint of the province's financial capacity to take the loan, put up the local counterpart and cover the debt service. Like most of the Argentine provinces and in the context of a very severe recession, Río Negro has posted fiscal deficits, but is moving toward a balanced budget. As a result, on the initiative of the federal government the provincial debt was renegotiated in 2002. The renegotiation is contingent on reducing the provincial deficit in 2003 and achieving a balance in 2004. With that agreement and more recent signs of renewed economic growth, the province could arrive at sustainable fiscal and debt management in the coming years. As a net exporter, the economy and revenues of the province of Río Negro will also benefit from the new exchange regime introduced at the start of 2002.
- 4.22 The provincial budget for 2003 is consistent with the fiscal goals negotiated with the federal government, in other words, an estimated primary surplus of Arg\$15,090,000, a financial deficit of Arg\$71,680,000 and a reduction in the floating debt of Arg\$72,320,000.
- 4.23 Using the projections without the program for the coming years, there will be a gradual improvement in the fiscal situation. Debt will not exceed the ceiling of 60 percent of the gross provincial product even in the most pessimistic scenarios (high inflation, deterioration in the terms of trade and zero or negative economic growth). The program finds that the fiscal impact of the spending on investments from external and internal sources and debt payments will have a positive impact on provincial finances.
- 4.24 The fiscal projections to 2015 show that the program will have a positive impact on the province's public accounts, with more substantial current results than in the situation without the program. These projections include variables such as additional tax revenues from higher public and private consumption, additional spending on investments under the program from Bank resources and the local counterpart, operating and maintenance costs, interest and amortization payments and the degree of indebtedness.

- 4.25 *The loan contract will establish that the estimates of the fiscal and financial impact of the program (which are semiannual fiscal management targets) are to be updated each year and that deviations in compliance may condition the flow of disbursements of the Bank loan.* Monitoring compliance with the targets will be performed by the Provincial Relations Branch of the federal Ministry of Economic Affairs and by the Bank. This plan for monitoring the province's fiscal management is consistent with other Bank operations in Argentina on the provincial level³ and with the mechanism for refinancing the provincial debt established by the Ministry of Economic Affairs, which conditions disbursements for refinancing on periodic compliance with fiscal targets. The scale of the operation also took the fiscal goals that the province has agreed on with the federal government into account (paragraph 1.13).
- 4.26 In addition to the province's capacity to provide the entire counterpart, and using Bank rules for SME credit projects, the counterpart for the trust fund component will be 25 percent as a contribution from the participating IFIs and 15 percent from the credit takers. The fiscal study of the province (1995-2001) and the projections form part of the program's technical annex.

E. Socioenvironmental feasibility

- 4.27 The proposed program will have positive environmental impacts through the subprogram to modernize the public administration, which offers opportunities to act on the weaknesses of the public institutions that regulate the private sector and are involved in environmental and natural resource management in the province.
- 4.28 The development of economic activities and management of natural resources in the province of Río Negro are regulated by specific rules that conform to national legislation. The rules for environmental management, in turn, are based on a series of laws, most of which do not yet have enabling regulations. In the past, CODEMA did not have the administrative and institutional independence that it needs for the environmental management of economic activities. To improve the effectiveness of the regulatory and institutional framework for environmental management in the province, a process has been launched to modernize CODEMA (paragraph 1.17), which will be strengthened as part of subprogram 1 (paragraph 2.4).
- 4.29 For environmental management to be effective, new institutional arrangements that integrate and coordinate the different sectors responsible for production, resource management, and public health were defined and formalized. CODEMA's administration will be modernized and relations with other levels of government (federal and local) that also have powers and responsibilities for natural resource

³ Loans to support modernization of the State in the province of Córdoba (1287/OC-AR) and the proposed loan for the province of Salta, AR-292, which is currently being processed.

management in specific parts of the province have been defined. Another aspect included in CODEMA's new role is participation by social stakeholders, such as NGOs, businesses, research centers and universities. The incorporation of strategic planning into CODEMA's organizational culture should lead to better working practices, identifying demands that require priority treatment. The standardization and regulation of the environmental impact assessment system and training for CODEMA's technical teams and the sector units for natural resource management should help to strengthen current practices for evaluation, auditing and supervision of productive activities. Last, the new model for managing protected areas, which is tailored to legal and institutional conditions in the province, should make it feasible to regulate the provincial system and the provincial fund for natural protected areas, both of which are already defined in the law.

- 4.30 As a new agency, Pro-Río Negro-Patagonia's tasks will include verification that eligible provincial products and services that receive the denomination of origin "Product of Patagonia, Argentina" comply with the environmental rules based on "an image of a natural product from Patagonia".
- 4.31 No significant environmental or social risks are anticipated relating to the subprogram to support the modernization of production of SMEs. The subprogram supports improvements in the competitiveness of the province's most consolidated productive sectors. Although SMEs may propose a different range of projects, the investments that were preidentified during the preparation stage as having the highest demand for financing are linked to the two main sectors of the provincial economy – fruit growing and tourism. In the tourism sector, the business plans presented include investments to upgrade hotels to obtain future reclassification. In the fruit industry, the business plans mostly involve the installation of equipment to protect against frost and more modern machinery that will result in fewer losses, less use of chemical inputs, better end quality of the product, and conversion to new varieties.
- 4.32 To ensure the environmental sustainability of the business plans to be financed, the Credit Regulations contain selection procedures relating to environmental quality and social equity as part of the eligibility, selection and approval process of projects. Business plans with potential negative environmental effects must include mitigation measures to accede to the financing. The nonfinancial services will include funds to hold workshops to raise awareness and educate entrepreneurs and IFI employees in environmental impact. The technical assistance will help to improve the manuals containing recommendations for environmental protection and control and employee health for the different sectors. Last, the specific studies for follow-up, evaluation and learning in subprogram 4 include five studies to evaluate environmental management activities.

F. Benefits

- 4.33 The benefits of the program will be seen in the increase in the competitiveness and production of the province's private productive sector, the improvement in its export positioning on foreign markets and an increase in export income. The new investments will create new sources of jobs and contribute to tax revenues to strengthen public finances, thanks to growth in the provincial tax base. New private investments will be attracted to the province from elsewhere in the country and abroad, since the stability and modernization of provincial regulatory activity will create a favorable environment for capturing long-term investments.
- 4.34 Other benefits include diversification of production and foreign markets and technological modernization and assimilation of new productive techniques by the SMEs that are program beneficiaries; creation and strengthening of clusters and associative projects in the fruit-growing and tourism industries; development of a regional trademark; and the use of certificates of protected geographic origin for the fruit and vegetables produced.

G. Risks

- 4.35 The main risk is that the private sector may not be willing to invest in activities to modernize production. This depends on whether there is a suitable sociopolitical climate for investment in the country and on whether international prices are acceptable. When the program was being prepared, a critical mass of small and medium-sized entrepreneurs was identified, who have investment projects and track records and are willing to provide guarantees and cofinancing to complement loans denominated in dollars, which will ensure that the investment program achieves its goals.
- 4.36 With regard to access to credit services, there is a risk that the conditions necessary for the internal operation of the fund to support SMEs will not develop, i.e.: (i) a reasonable number of eligible IFIs will not be found promptly, given the delicate situation that still prevails in the financial system; (ii) the solvency of participating IFIs could deteriorate with an eventual impact on program funds; and (iii) not enough SMEs will be eligible for bank loans, based on the rules of the BCRA. This last aspect could be significant if the system does not return to normal or suffers a new setback. However, there is a clear trend toward a rapid improvement in the situation as the process advances, and it is therefore felt that it might only have a significant impact during the first year of the subprogram.

LOGICAL FRAMEWORK

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
OBJECTIVE OF THE PROGRAM			
Provincial SMEs improve their competitive position on in international markets in a strengthened public-private context.	Annual growth in foreign currency earned by SMEs in the province of Río Negro is 10% higher than growth in the value of national exports.	Semiannual reports by INDEC Hotel Association of Bariloche Data from customs at the port of San Antonio	A healthy macroeconomic policy is maintained on the federal level, that promotes sustained economic growth and encourages exports.
PURPOSE OF THE SUBPROGRAMS			
1. The provincial public apparatus to support the productive sector functions efficiently.	<p>1.1 The time spent by the productive sector on business formalities is reduced by 20% by the end of the fifth year of the program, as compared to the baseline (e.g. a license to operate a hotel 6 months, environmental license for operating a business 5 months, registration of a livestock brand 2 months).</p> <p>1.2 A new methodology is used to calculate five fees (environmental license, hotel license, fruit certification agreements, waybills for livestock and for mining).</p> <p>1.3 Quarterly and annual indicators on the economic context and public finances, including gross provincial product, tourism and tax spending, are made available to the public in year three of the program.</p>	<p>Semiannual evaluation by the program monitoring system</p> <p>Decision on new fees</p> <p>Verification on the province's web page</p>	<p>The province's fiscal indicators remain within the parameters agreed on with the federal government during the program. Fiscal goals in Arg\$ millions for 2003:</p> <ul style="list-style-type: none"> • Primary financial results—cash base 15.09; • Financial results without privatizations – cash base: -71.68; • Stock of floating debt: 32.01; • No new debt without authorization from the federal Ministry of Economic Affairs and no issue of quasimoney.

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
2. A public-private economic development strategy that focuses on promoting exports and tourism and attracting private investment has been implemented.	2.1 Increase in the number of foreign tourists from outside MERCOSUR by 20% at the end of year five of the program. Baseline 2002: 60,000 tourists/year.	Status reports by the Department of Tourism of Río Negro PGI regulatory council	The country's sociopolitical context does not discourage private investment. International prices for the province's exportables are an incentive to sell abroad.
	2.2 The value of agri-food exports with protected geographic identification (PGI) accounts for at least 10% of provincial exports by the end of year five of the program.		
3. The productivity and quality of the goods and services produced by provincial SMEs improve.	3.1 By the end of year five of the program, at least 80% of the business plans for which loans are obtained have complied with 80% or more of their goals ¹ and at least 50% of those plans are to finance investments by beneficiary SMEs.	Business plans and reports by USMEA Portfolio of the trust fund	Existing conditions of access to financial markets by the productive sectors in Río Negro are not made more restrictive.
SUBPROGRAMS/RESULTS			
1. Modernization of services to support the productive sector			
Strengthening of management, regulatory and supervisory capacity The Department of Production, the Department of the Fruit Industry, the Department of Tourism and the Ecology and Environment Council (CODEMA) are provided with management capacity.	1.1 Regulatory frameworks for crop farming, fruit farming, livestock farming, fisheries, wildlife and forests are revised and in effect by the end of year one of the program. 1.2 Master register of companies operating by the middle of year three of the program. 1.3 System for control, supervision and monitoring for the fishing fleet in the Gulf of San Matías in effect by the end of year five of the program. 1.4 Andean native forest in Patagonia with land zoning for sustainable use by the end of year five of the program. 1.5 New system for regulation and certification of hotels implemented by the end of year five of the program.	Publication in the provincial Gazette Follow-up reports on the subprogram	There is political will to implement the reforms.

¹ Some productivity and quality goals will be defined on the basis of benchmarks for competitor countries.

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p>1.6 System for supervising tourism services implemented by the end of year five of the program.</p> <p>1.7 Comprehensive management of Cerro Catedral improved by the end of year five of the program.</p> <p>1.8 New institutional design for CODEMA and the environmental management system implemented by the end of year five of the program.</p> <p>1.9 Environmental planning and management techniques incorporated in CODEMA by the end of year five of the program.</p> <p>1.10 Environmental impact assessment and environmental auditing system modernized and regulated by the end of year five of the program.</p> <p>1.11 New model for managing protected natural areas implemented and applied to defined areas by the end of year five of the program.</p>		
<p>Strengthening in programming and evaluation</p> <p>Programming and evaluation capacity of the economic information system strengthened.</p>	<p>2.1 Eight studies to improve the quality of provincial economic statistics completed in year two of the program.</p> <p>2.2 New tourism statistics produced annually starting in year three of the program, available on the provincial web site.</p>	<p>Follow-up reports on the subprogram</p>	
2. Promotion of exports and investments in Río Negro			
<p>Development of clusters</p> <p>Strategic actions for key economic sectors in the province carried out.</p>	<p>1.1 Competitiveness strategies for the fruit-growing cluster in the upper and middle valley, the tourism cluster and the technology cluster in the Andes zone prepared and implemented by the end of year two of the program.</p>	<p>Plans of action for clusters designed and approved by the members</p> <p>Follow-up reports on the subprogram</p>	<p>The beneficiaries behave proactively toward entrepreneurial linkage.</p>

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Promotion of exports and attraction of investments Exports of provincial goods and services and attraction of investments promoted.	2.1 Trademark and logo “Patagonia Río Negro” as a protected geographical indication and manual of related procedures developed by the end of year three of the program. 2.2 Web page designed and operating and preliminary promotional materials distributed by year two of the program. 2.3 Strategy to promote the province developed by the end of year three of the program.	PGI regulatory council PCU follow-up report Verification on the province’s web page	
Institutionalization of Pro Río Negro-Patagonia Public-private framework established to promote exports and attract investments.	3.1 Export promotion agency established and operating by year three of the program.	Public registry of the promotion agency	
3. Support for modernization of the production of SMEs			
Fund to support SMEs Competitiveness of export-oriented SMEs improved.	1.1 At least 850 SMEs benefit from the fund by the end of year five of the program.	Financial statements of the trust fund	The IFIs are willing to assist SMEs financially and there is demand for credit on the market.
Nonfinancial services Capacity of beneficiary SMEs to formulate and execute business plans strengthened.	2.1 At least 1,500 SMEs obtain approval of their business plans by the end of year five of the program. 2.2 75% of the IFIs participating in the financial trust participate in training activities by the end of year five of the program. 2.3 A minimum of 20 professionals/organizations (private operators) who work with provincial SMEs participate in technical training activities by the end of year five of the program.	System of information on business plans USMEA web page	There is demand by SMEs for nonfinancial services.

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p>2.4 75% of the SMEs that obtain investment loans will be monitored (visits/inspections) to verify their use of the loan and evaluate progress in their business plans.</p> <p>2.5 A statistically representative sample of SMEs that obtain credit to prefinance exports and working capital will be monitored (visits/inspections) to verify their use of the loan and evaluate progress in their business plans.</p>		
4. Follow-up, monitoring, evaluation and learning system			
Continuous, up-to-date information available during the entire life of the program, permitting permanent evaluation and adjustment.	1.1 The system is used for management decisions and planning during the program.	Mid-term evaluation by USMEA and the ex post evaluation	

ARGENTINA (AR-0279)
PROGRAM TO SUPPORT THE MODERNIZATION OF PRODUCTION
IN THE PROVINCE OF RÍO NEGRO

PROCUREMENT PLAN

Procurement/activity	Estimated value (US\$ thousands)	Financing		Type of procurement	Modality	Expected date (year/ semester)
		IDB (%)	LOCAL (%)			
1. Administration and supervision						
Establishment of the PCU	90	80	20	Computer equipment and furniture	LCB	1 / B 3 / A
Subtotal	90					
2. Subprogram for the modernization of support services for the productive sector						
Regulation, awareness raising and organization	76	70	30	Consulting	LCB	2 / A
Definition of management guidelines	111	100	0	Consulting	LCB	2 / A
Preparation of a zoning proposal	112	100	0	Consulting	LCB	1 / B
Review of the regulatory framework	115	100	0	Consulting	LCB	1 / B
Review of standards and regulations	130	100	0	Consulting	LCB	1 / B
Organization and training in supervision	335	100	0	Consulting	ICB	1 / B
Studies to strengthen the statistics system	417	100	0	Consulting	ICB	1 / A
Hotel classification	429	70	30	Consulting	ICB	1 / B
Strengthening the Department of Production – software development	150	100	0	Consulting	LCB	2 / A
Strengthening the Department of Production – software development and adaptation of computer equipment	406	0	100	Consulting	ICB	1 / A
Equipment (Departments of Production, the Fruit Industry, Tourism and CODEMA)	388	100	0	Computer equipment	LCB	1 / A 1 / B 2 / B 3 / A
Subtotal	2,669					
3. Subprogram for the promotion of exports and investments in Río Negro						
Feasibility study and development of the PGI	50	100	0	Consulting	LCB	2 / B
Technical assistance for CREAR in export promotion	120	100	0	Consulting	LCB	1 / A
Technical support and training, clusters	1,000	90	10	Consulting	ICB	1/ A
Focus group study in the target market	373	100	0	Consulting	ICB	2 / B
Organization of international events	240	100	0	Consulting	ICB	3 / A
Preparation of a strategy to improve the province’s business environment	233	90	10	Consulting	ICB	2 / B
Export promotion	121	0	100	Consulting/ Brochures for fairs and promotion	LCB	2 / B

Procurement/activity	Estimated value (US\$ thousands)	Financing		Type of procurement	Modality	Expected date (year/ semester)
		IDB (%)	LOCAL (%)			
Equipment	50	100	0	Computer equipment	LCB	1 / B
Subtotal	2,187					
4. Subprogram to support modernization of the production of SMEs						
Publicity for the program in the media (radio, TV and graphics)	51	100	0	Consulting	LCB	1 / B
Partial repetitions of the publicity campaign	50	100	0	Consulting	LCB	2 / A
Nonfinancial component – equipment	14	57	43	Information and communications equipment and furniture	LCB	1 / A 1 / B 3 / A
Subtotal	115					
5. Subprogram for follow-up, monitoring, evaluation and learning						
Development and implementation of an information system for USMEA	38	100	0	Consulting/ information systems and equipment	LCB	1 / A
Specific studies for program monitoring and evaluation	295	100	0	Consulting	LCB	1 / B 2 / B 3 / A-B 4 / A-B 5 / A-B
Equipment	15	100	0	Computer and communications equipment	LCB	1 / A
Subtotal	348					
TOTAL	5,409					

NOTE: LCB – local competitive bidding; ICB – international competitive bidding